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Multiemployer Pension Plans: Composite Plan Designs

QCA Position:

Congress should act quickly to provide employers and employees participating in collectively bargained, multiemployer benefit plans more choices in retirement plan models.

QCA is supporting a composite model that is distinct from both the traditional defined benefit model and the defined contribution model. This would accomplish the final piece of the multiemployer pension reform proposal, "Solutions Not Bailouts".

The composite model would enable multiemployer pension plans to voluntarily adopt more flexible plan structures that would reduce risks for contributing employers but still provide reliable, lifetime income for secure retirement for workers.

The Issue:

- The Multiemployer Pension Reform Act of 2014 (MEPRA) provided important new options for the 7 to 10% of multiemployer plans that are facing insolvency. These reforms were necessary for "terminally ill" plans. MEPRA also made needed technical corrections to the Pension Protection Act (PPA) and made the multiemployer provisions in PPA permanent. PBGC premiums for multi-plans were doubled from \$13 per participant to \$26 per participant with a June 2016 report due to Congress on the impact of MEPRA.
- MEPRA, however, did NOT address obstacles faced by many of the other 90% of multiemployer plans nor did it address the unquantifiable, unacceptable risks faced by the employers contributing to those plans.
 - Many construction industry plans have an aging demographic - dominated by retired participants - and face diminished employer contributions.
 - Market volatility and default by other employers, both totally beyond the control of individual contributing employers, create unpredictable, unacceptable risk.
 - Resulting funding shortfalls create withdrawal liability which leads to lending and bonding issues for construction contractors.
 - The unquantifiable risk serves as a barrier to new employers entering the system and creates an incentive for current employers to leave the system, further destabilizing the plans.
 - The PBGC Multiemployer program continues to face financial challenges.
 - New plan design was included in the original *Solutions Not Bailouts* proposal but faced jurisdictional concerns too close to final consideration of MEPRA to be resolved and plans need options now to meet today's economic challenges.



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The Solution:

QCA recommends that Congress advance new and innovative plan designs that would allow implementation of more flexible plan structures that would reduce risks for contributing employers but still provide reliable, lifetime income to ensure a secure retirement for workers.

Composite Plan Design Features:

- **Would combine features of traditional Defined Benefit plans and Defined Contribution Plans providing retirement security and the economic efficiency of defined benefit plans needed for workers, with more predictable costs vital for employers**
- **Moving from a traditional defined benefit plan to a composite plan would be entirely voluntary. Plans are governed by trustee boards with an equal number of employer and employee representatives with a fiduciary responsibility to participants.**
- **Plans would pay benefits as lifetime annuities – lump sums not allowed**
- **Flexible design would eliminate withdrawal liability going forward and eliminate need for PBGC in the future.**
- **Plan assets would be professionally managed**
- **Assets & Mortality Risks would be pooled as in traditional defined benefit plans**
- **Participants benefit from negotiated fee levels to the plan – no individual fees**
- **Benefits protected with strict conservative investment, management and funding requirements – must be funded at 120% -- could withstand another 2008**
- **Benefit improvements strictly linked to funding outlook**
- **Core benefit protections for vulnerable populations – those in pay status**
- **Legacy plans must continue to be adequately funded**

Key Points:

- The proposal for new plan design has labor-management and bi-partisan support.
- Composite designs would improve the ability of plans to retain existing contributing employers and would attract new employers by eliminating unfunded liabilities/withdrawal liability for employers going forward.
- Transitioning to new composite design would improve retirement security for active workers and would not affect already accrued benefits.
- The proposal is a private sector solution, not requiring government dollars and is designed to keep the current funding crisis from happening in the future.
- Plan stability helps PBGC with its funding liabilities.
- The proposal is workable; the design process included plan administrators, actuaries and accountants, labor and management.



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- The construction industry, comprising about 54% of multiemployer plans, covering 37% of participants, was particularly hard hit by the recession. The majority of construction industry employers are small family-owned businesses.
- Withdrawal liability can exceed the value of even a successful company so owners are unable to sell their business and hesitate to transition their business to their children.
- QCA employers want to continue to provide long-term retirement security to their workers but first they must ensure the viability of their companies. Without new plan design, the good jobs with pension benefits they provide are at risk.

Status:

Legislative language is being drafted. We anticipate a hearing in the House Education and Workforce Committee in the near future. We do expect bipartisan support for the bill when it is introduced.

Four Committees of Jurisdiction:

Senate Finance

Senate Health, Education, Labor and Pensions (HELP)

House Education and Workforce

House Ways & Means



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