Talking Points on Joint Select Committee Multiemployer Proposal

The Orrin Hatch-led Republican Plan will dramatically increase costs on active workers, retirees, and employers that will undermine the multiemployer defined benefit pension system.

I. <u>New Taxes and Fees on Workers and Retirees</u>

- The Republican Plan is designed to raise $3 billion annually out of the healthy multiemployer funds to support participants in failing plans.
- The plan will create a tax on retirees' pensions – 0% for Green Plans, 2% for Yellow Plans, 3% for Red Plans, 4% for Declining and Insolvent Plans and 6% for Plans with Liability Removal.
  - National Electric Benefit Fund (NEBF) beneficiaries would pay $20-$30 million annually if the fund is moved to the Yellow or Red Zone.
- The proposal creates a new $2 per active worker per month fee on unions and employers.
  - This fee will cost the IBEW over $6 million annually.
- The plan changes the Pension Benefit Guaranty Corporation (PBGC)'s per participant annual premium from the current flat fee of $28 to a variable premium of $50-$150, with an average of $100 per participant.
  - The new variable premium could cost the NEBF upwards of $55 million a year in additional premiums.

II. <u>New Requirements on Multiemployer Plans</u>

- The Republican Proposal creates a prescribed discount rate capped at the corporate long bond rate + 2% for all plans.
  - A prescribed discount rate is very concerning due to the significant changes in interest rates, thereby making long-term budgeting more difficult and could potentially put a heavy burden on the NEBF.
  - For example, a mere 0.25% decrease in the NEBF's discount rate from 7.5% to 7.25% would increase unfunded liabilities by $500 million.
- The proposal would require pension funds to subtract their credit balance from plan assets in determining a plan's zone status.
  - Use of credit balances are a common industry practice that help pension funds accurately conduct long-term planning.
  - Excluding credit balance from assets would significantly impact the NEBF, most likely moving the fund from a Green to Yellow Zone plan.
- The proposal would eliminate asset smoothing, which are used to by fund actuaries to smooth out short-term fluctuations in market values.

III. <u>Future for Currently Failing Plans</u>

- The proposal will partition failing funds that will place orphan participants' under the PBGC.
- The PBGC will guarantee orphaned participants maximum of $70 per month per years of service.
- The federal Treasury will transfer up to $3 billion annually into the PBGC, depending on the level of funding needed to support partitioned participants.
- The non-partitioned participants will stay in their pension fund and need to meet the requirements above.
- The partitioning program and orphan participant adoption under the PBGC will be a one-time occurrence.