

Re: Multiemployer Pension Solvency

November 1, 2018

The Honorable Orrin Hatch  
Chairman  
Joint Select Committee on Solvency of  
Multiemployer Pension Plans  
United States Senate  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

The Honorable Sherrod Brown  
Co-Chairman  
Joint Select Committee on Solvency of  
Multiemployer Pension Plans  
United States Senate  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Co-Chairmen Hatch and Brown:

As the Joint Select Committee on Multiemployer Pension Solvency considers proposals to address the multiemployer pension crisis we urge Congress to enact meaningful reform aimed at preventing the situation from reoccurring and protecting taxpayers from future burden. This crisis has created uncertainty for millions of American workers planning their retirement and we appreciate the committee's attention to this issue.

The Pension Benefit Guaranty Corporation (PBGC) currently estimates that there are 100 multiemployer pension plans in danger of insolvency if benefits are not reduced. The Heritage Foundation assesses that multiemployer pensions hold roughly \$638 billion in unfunded pension promises with only 7 years before plans begin collapsing. Insolvency on this widespread scale would likely bankrupt the PBGC, itself underfunded, as it is required by law to insure retirees' benefits up to \$12,870 per year.

While promises were made to participants in multiemployer plans, they were made by private labor unions, not the government and certainly not taxpayers. While the enormity of the problem may make government intervention a political inevitability, taxpayers have no direct responsibility to intervene. Any action considered by the committee should therefore focus on minimizing taxpayers' burden and enacting serious reform to prevent a future crisis from occurring again.

Any proposal seeking to provide federal assistance to multiemployer pensions should include the following reforms:

- 1) **Improved Solvency of the PBGC.** The first priority should be ensuring the PBGC is capable of providing its intended level of insured benefits to retirees. While the PBGC is not taxpayer funded, it is still an entity of the government and has failed to meet its obligations. Efforts at properly funding the PBGC should focus upon raising standard multiemployer premiums significantly to increase PBGC revenues, requiring termination plans for insolvent plans and introducing a standard PBGC eligibility age for new individuals receiving PBGC benefits. An underfunded PBGC has contributed to this crisis and increases the burden placed on taxpayers, this problem must be addressed.
- 2) **Accrual of new benefits should freeze while switching employees to 401(k) plans.** It is standard practice for single-employer pension funds to immediately freeze accrual of

new benefits and switch employees to 401(k) plans when seeking assistance from the Pension Benefit Guaranty Corporation. Multiemployer pensions must be held to the same standard. Despite approaching insolvency, multiemployer pension plans continue to promise benefits several times more generous than the typical employer contribution to 401(k)s. Almost two-thirds of contributions made by multiemployer plans simply cover newly earned benefits, an irrational amount for plans approaching insolvency and seeking taxpayer aid. Halting accruals will free up funds to pay current benefits while new benefits will be more appropriately funded through both employer and employee contributions.

- 3) **Multiemployer plans must be held to appropriate funding standards.** Taxpayers should not be on the hook for pensions taking on greater risk. Multiemployer pensions have been granted special funding rules that allow them to set lower employer contribution levels and rely on higher returns than comparative single-employer plans. For example, while single-employer plans are expected to resume full funding in seven years, multiemployer employer plans are given thirty years to payoff unfunded liabilities. Allowing multiemployer plans this substantially larger time period has allowed the funding shortage to snowball. As several participating employers went bankrupt or withdrew over time, the remaining employers were on the hook for guaranteeing the same investment returns to participants of these “orphaned plans.”
  
- 4) **Beneficiaries should be protected within reason.** Retirees should be granted protection to their benefits, but that protection must be given within fiscally responsible limits. 401(k) holders don’t receive a bailout if their account drops, despite plans being funded by the employees themselves. Retirees under single-employee pensions don’t receive unlimited PCGC protection despite more stringent funding rules. Beneficiaries of multiemployer plans shouldn’t receive special treatment from the government simply because their union representatives overpromised on returns. **Perhaps most importantly, having taxpayers fully cover the loss for retirees will be a signal to employees that their union representatives successfully advocated to protect them, when in reality union leadership overpromised and underfunded their pensions.** To avoid a repeat scenario, this situation must be recognized as a pension crisis, not business as usual with a taxpayer safety net.

As the Joint Committee continues to consider a potential solution, Americans for Tax Reform hopes that the committee will work to lessen the burden on taxpayers and will pursue a solution that prevents a similar pension crisis from happening again.

Thank you for your consideration. If you have any questions, please do not hesitate to contact me or ATR’s Federal Affairs Manager Mike Palicz at [mpalicz@atr.org](mailto:mpalicz@atr.org) or at 202-785-0266.

Onward,



Grover G. Norquist  
President, Americans for Tax Reform