

**THE STRUCTURE AND FINANCIAL OUTLOOK OF  
THE PENSION BENEFIT GUARANTY CORPORATION**

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**HEARING**  
BEFORE THE  
**JOINT SELECT COMMITTEE**  
**ON SOLVENCY OF**  
**MULTIEMPLOYER PENSION PLANS**  
**UNITED STATES CONGRESS**  
**ONE HUNDRED FIFTEENTH CONGRESS**  
SECOND SESSION

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MAY 17, 2018  
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Solvency of Multiemployer Pension Plans

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JOINT SELECT COMMITTEE ON SOLVENCY OF  
MULTIEMPLOYER PENSION PLANS

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# **THE STRUCTURE AND FINANCIAL OUTLOOK OF THE PENSION BENEFIT GUARANTY CORPORATION**

**THURSDAY, MAY 17, 2018**

U.S. CONGRESS,  
JOINT SELECT COMMITTEE ON SOLVENCY OF  
MULTIEMPLOYER PENSION PLANS,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 2:10 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Sherrod Brown (co-chairman of the committee) presiding.

Present: Senator Hatch, Representative Roe, Senator Crapo, Representative Buchanan, Senator Portman, Representative Schweikert, Representative Neal, Senator Manchin, Representative Scott, Senator Heitkamp, Representative Norcross, and Senator Smith.

Also present: Republican staff: Chris Allen, Senior Advisor for Benefits and Exempt Organizations for Co-Chairman Hatch. Democratic staff: Gideon Bragin, Senior Policy Advisor for Co-Chairman Brown. Undesignated staff: Julie Cameron, PBGC Detailee; and Constance Markakis, PBGC Detailee.

## **OPENING STATEMENT OF HON. SHERROD BROWN, A U.S. SENATOR FROM OHIO, CO-CHAIRMAN, JOINT SELECT COMMITTEE ON SOLVENCY OF MULTIEMPLOYER PENSION PLANS**

Co-Chairman BROWN. I would like to welcome our colleagues and everyone in attendance to this second hearing of the Joint Select Committee on Multiemployer Pension Reform.

Our job on this committee, to be sure, is to find a bipartisan solution on the multiemployer pension crisis threatening 1.3 million Americans and thousands of small businesses.

To do that, we have to confront the secondary crisis threatening the Pension Benefit Guaranty Corporation. Congress created the PBGC more than 40 years ago in 1973 to serve as the insurance company for these retirement plans. Like any insurance plan, PBGC coverage does not kick in until after the damage has been done: after a plan has failed, after businesses have gone under, and after jobs have been lost.

PBGC is supposed to cover part of the retirement that workers earned.

Ask anyone who has ever totaled a car or dealt with flooding or fire in their homes—you are sure glad you have insurance, but you would much rather have avoided disaster in the first place.

We have the opportunity, really beginning today, in the work we do in the next 7 months, to do just that: to help keep these businesses open and save these jobs to ensure workers get the entire retirement they earned.

Simply propping up PBGC is not enough. We cannot take our hands—continuing the metaphor—we cannot take our hands off the wheel, close our eyes, and allow this car to crash simply because we bought an insurance policy. We cannot do that to the retirees whom we serve, we cannot do that to the businesses which we want to thrive, whose plans are in crisis, and we cannot do that to the multiemployer system.

As the crisis in the multiemployer plans has developed over the last few years, a second, quieter crisis has developed at the PBGC, a crisis that means allowing just one of these major plans to fail could put enough strain on the insurance system to bring down the entire PBGC multiemployer system.

According to the latest estimates, the multiemployer system at PBGC faces a deficit of some 65-billion-and-growing dollars. It has just \$2 billion in assets. It is projected to become insolvent within the next 7 years. We are all familiar with those numbers.

We see the writing on the wall. When one of these large plans on the brink of failure requires PBGC to step in, the PBGC will also fail, potentially leaving taxpayers on the hook, not just for millions, not just hundreds of millions, not just billions, but tens of billions of dollars.

It is our job to make sure that that does not happen. The Federal Government helped create this crisis; the Federal Government must help solve it.

Each plan is different. There are many factors that contributed to bringing them down. There is no question that Wall Street squandered some of this money, but the government also played a role through perverse tax incentives, insufficient premium levels, inadequate tools and financing for PBGC—all parts of this system that were designed by Congress and put in place by Congress.

We have a responsibility to correct each of these errors. That means, yes, addressing future actuarial assumptions within these plans, but we know that is an inadequate, incomplete solution.

To truly address this crisis, we must do two things: first, update and upgrade PBGC so that it never happens again; and second, solve the current crisis facing retirees, workers, and businesses. We really cannot do one without the other.

Updating and strengthening PBGC alone would still lead to massive pension cuts. It would leave small businesses drowning in withdrawal liability and active workers paying into a premium that they will never receive.

We need to make it clear to all Americans whose lives will be upended by the failure of these plans—way more than the 1.2 million workers, now retirees, way more than the thousands of businesses—we need to make it clear to all Americans whose lives will be upended by the failure of these plans that we will not let that happen. That is the seriousness and gravitas of our mission.

At the same time, we cannot just put out the fire we are fighting today and leave the PBGC as a box of kindling waiting to ignite

another crisis a few years down the road. We must ensure we never get to this place again.

I am confident we can do both together and that the information we obtain today will be an important part of that process.

The committee will continue to hold hearings—two more in June, another two in July. At the same time, we are holding numerous staff and member-level briefings, including with members of both parties, not the 16 of us on this committee. We are continuing to receive comments and input on our website, *pensions.senate.gov*.

This will continue to be a bipartisan process. The committee was structured that way. Senator Hatch and I insist on it and have the relationship to work together to do it.

This information will arm our members with the information we need and give the people we serve the opportunity to weigh in.

In July, when the bulk of these hearings conclude, we will have to start the process of negotiating a bipartisan solution to this crisis. Remember, we need five Democrats and five Republicans to support this. And Chairman Hatch and I are very aware of that.

I am ready and willing to consider any idea that solves the current crisis and helps prevent a future crisis. I know Chairman Hatch shares that approach.

And with that, I yield to my co-chair, Senator Hatch, for his opening statement. Thank you.

[The prepared statement of Co-Chairman Brown appears in the appendix.]

Co-Chairman BROWN. Orrin?

**OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH, CO-CHAIRMAN, JOINT SELECT COMMITTEE ON SOLVENCY OF MULTIEMPLOYER PENSION PLANS**

Co-Chairman HATCH. Well, thank you, Senator Brown.

This is the Joint Select Committee's second hearing to delve into issues concerning the operations of the multiemployer pension system.

As I noted last time, it is critical for us to remember that the mandate of the Joint Select Committee is not just to develop reports and recommendations on the multiemployer plans, but to also review the solvency of the Pension Benefit Guaranty Corporation.

To do this, we have brought in one of the Nation's top experts on the PBGC, Tom Reeder, who happens to also be the current Director of the Corporation, which insures benefits for the more than 30 million Americans in defined benefit pension plans.

To provide context, one of the core issues confronting pension policymakers is the issue of benefit security. Pension benefit security and protection can be approached in a number of ways, including strong pension plan funding rules, robust asset management requirements, and meaningful disclosure mandates.

In the United States, we have historically used a benefit guaranty system, essentially a form of insurance, for many defined benefit pension plans to cover lost pension income if a retirement plan becomes insolvent or sponsoring employers go bankrupt.

The problem is that the U.S. system is very complicated and often difficult to effectively operate. There are a lot of moving parts and numerous variables for which to account.

Some of those variables include questions on how plans are insured, to what extent benefits are guaranteed, and how we can sufficiently fund the system while still ensuring employers are properly incentivized to sponsor retirement plans.

The problems do not end there, though. It is clear that since its inception in 1974, the PBGC has faced design and operational issues that have made achieving its policy goals difficult.

This morning, Mr. Reeder will provide an overview of the PBGC's structure and finances, answering key questions about the organization, including how it is structured and, most important, how it is financed. It is imperative that the Joint Select Committee develop a solid base of knowledge about the corporation and how it is funded before turning to the PBGC's current funding status.

And in a word, that funding status is troubled. I will not recite the grim statistics, because we have all read them and we are all deeply concerned.

Over the course of the next number of weeks and months in the Joint Select Committee, I trust that we will learn more about the economic and demographic forces that impact the multiemployer system and, consequently, the financial health of the PBGC.

But today, let us dig into the fundamentals first. After all, it is hard to plot a course without getting a good map of the terrain.

As we work today with Mr. Reeder, here are some fundamental questions I think both sides should keep in mind. What is the corporation's charter and how does that affect its operations and success? What does it mean to be a wholly owned government corporation? What are the PBGC's core functions, and how is it structured to achieve these functions? Does PBGC have the right tools and flexibility to intervene in the management and operation of troubled multiemployer plans? How does the corporation manage the funds under its management? Also, importantly, how do the insurance premiums work to fund the plan guarantees? And is this all the right model for the economic and demographic markets in which these plans operate? That is an important question, and it is something we are going to have to answer. And I am very concerned about it, it is easy to see.

Frankly, I believe we need to get these answers and then spend some time understanding what those answers mean before the Joint Select Committee can effectively consider any proposals to repair the multiemployer system.

So let us get started.

Senator Brown, we will turn it back to you.

[The prepared statement of Co-Chairman Hatch appears in the appendix.]

Co-Chairman HATCH. I have to be at the Judiciary Committee this morning, but I have every confidence in Senator Brown and others on this committee to move this along in the proper way.

Co-Chairman BROWN. Good. Thank you, Senator Hatch.

I have the pleasure to introduce W. Thomas Reeder. He serves as the 15th Director of the Pension Benefit Guaranty Corporation.



Mr. Reeder began his employee benefits career as an associate attorney at Akin, Gump, Strauss, Hauer, and Feld and later at Paul Hastings, where he became a partner in the national employee benefits practice group.

In February of 2000, he joined the office of Benefits Tax Counsel in the Office of Tax Policy at the Treasury Department, where he worked for three administrations. He was named benefits tax counsel in 2005. He joined the staff of the Senate Finance Committee, meeting in this room, in May of 2009. He was a key adviser as such in several significant legislative initiatives affecting the employee benefits area. Starting in March of 2013, Mr. Reeder served as an executive in the Office of Chief Counsel at the IRS.

A native Texan, Mr. Reeder is a graduate of the University of Texas at Austin College of Arts and Sciences, Graduate School of Business, and School of Law.

Welcome back to the Senate, Mr. Reeder. We are now ready to hear your testimony. Director Reeder, thank you.

**STATEMENT OF HON. W. THOMAS REEDER, DIRECTOR, PENSION BENEFIT GUARANTY CORPORATION, WASHINGTON, DC**

Mr. REEDER. Thank you, Chairman Brown and Chairman Hatch and members of the committee.

I really very much appreciate the opportunity to appear before you to discuss the key challenges PBGC faces in protecting pensions earned by participants in multiemployer plans.

I have submitted my full statement for the record, as is the custom, and will focus my oral testimony on what I believe are the most pressing points.

To aid in conveying my points, we have prepared a collection of seven charts from my prepared statement, which I believe you have before you. And I apologize in advance for making it look like a PowerPoint, but I think it is better to have some of the information in graphic form.

As has been mentioned, Congress established PBGC as part of ERISA in 1974 to provide basic insurance for participants' defined benefit pensions. Today, PBGC insures 10 million people in the multiemployer system in addition to a little less than 30 million in the single-employer system.

Multiemployer plan participants face three major problems. First, and I believe foremost, PBGC lacks the money needed to ensure workers will receive the benefits guaranteed under ERISA if their plan fails. Second, even if PBGC were able to meet its obligation to these workers, many still face significant losses because the pension they earned is greater than the ERISA guarantees. Third, even though most multiemployer plans are not in imminent risk of failure, ERISA rules do far too little to prevent plans from becoming severely underfunded in the future.

Looking first to PBGC's ability to keep its commitments, you can see from Figure 1 that our multiemployer program is in dire condition. It has liabilities of more than \$67 billion and assets of just over \$2 billion.

The comparison of those two numbers—the \$65-billion deficit is one thing. The fact that you are using \$2 billion in assets to pay

\$67 billion is another thing. In other words, we cannot grow our way out of this.

This is in stark contrast to the single-employer program, which has liabilities of \$117 billion and assets of \$106 billion, leaving a deficit of only \$11 billion. This is as of our last annual report.

Annual premiums paid for single-employer plans are \$6.7 billion a year. Annual premiums paid in the multiemployer fund, on the other hand, total only \$291 million. In other words, we are dealing with a deficit measured in dozens of billions of dollars with premiums measured in millions of dollars.

Both the single and multiemployer programs have been in deficit for about 15 years.

In Figure 1, you can see that in the single-employer program, the deficit has been steadily declining. We are still in deficit, but it is steadily declining.

During the same period, there has been a rapid increase in the deficit of the multiemployer program. That is the blue.

The multiemployer deficit is the direct result of an unprecedented level of plan failures that we expect in the very near future. Approximately 130 multiemployer plans covering 1.3 million participants have publicly reported to their participants and to the PBGC that they are in critical and declining condition. That means that they expect to fail within the next 20 years, some much sooner than that.

This is in addition to the 93,000 participants in plans that have already become insolvent that we are providing assistance to.

Figure 5, what we call the flag chart, shows that critical and declining plans cover about 13 percent of the participants in the multiemployer system. That is the area to the right of the solid black line.

You can also see that there are many more participants in critical plans—that are in the red zone—that are still at significant risk of failure, even though they are not yet critical and declining.

And then the chart shows that more than half of all multiemployer participants are in green zone plans. Let me emphasize that green zone does not mean hunky-dory. Green zone means anything other than critical or in danger.

So Figure 3 shows PBGC's most recent projections report. It shows that before the end of 2025, plan failures in the near future will lead to claims for PBGC financial assistance—measured by the red bars—in amounts that will exceed the money in our multiemployer insurance program—measured by the green area.

As you can see, the green area gradually increases until about 2022, at which time it takes off on a very steep slope. It is not the beginner slope, it is the Olympic slope.

The program's insolvency would be catastrophic for many participants and surviving beneficiaries. The maximum guaranteed benefit for a retiree in a multiemployer plan is often cited as \$12,870, but that is \$12,870 for somebody with 30 years' experience and 30 years of working under the plan.

And unlike the single-employer system, the multiemployer system guarantee level is determined by how many years you have under the plan. So most people have a guarantee level that is a lot lower than \$12,870.

If PBGC's program becomes insolvent, the benefit would only be a small fraction of the amount that is under the statute.

Again, in Figure 3, the green line at the bottom of the chart represents PBGC's annual premium income. That is the only benefits we will be able to pay once we become insolvent. That would result in us being able to pay only about an eighth or less of the amounts we already pay under ERISA. And again, we already pay a very low amount compared to what many people are earning today in their pensions.

Even if sufficient funds are provided to PBGC, many people will suffer significant losses, because the pensions they earn are well over the ERISA guarantee level.

We saw this last year when the Road Carriers Local 707 pension fund failed. As a result of that failure, nearly half of the 5,000 participants lost 50 percent of their earned plan benefit.

Figure 7 shows the size and distribution of the cutbacks to the multiemployer guarantee limit for the retirees in the 707 plan. The green is the amount they will receive due to the financial assistance provided by PBGC. It is a jagged line because each of those lines represents an individual, a human being, and some of them have a higher guarantee level than others based on their years of service and their accrued benefit.

The red is the amount of benefit they earned by working under the plan—and they are not getting. The full benefit earned by current retirees and beneficiaries in the 707 fund averages \$1,313 a month or a little bit less than \$16,000 a year. Not a rich benefit. But the average guaranteed benefit is only \$570 a month. As a result, the average loss for the 3,000 retirees in the plan is \$743 per month for the rest of their life.

Protecting against these kinds of losses would require a much higher ERISA guarantee or cash infusions into the plan from either contributing employers or third parties.

Finally, better protecting participants and plans that are not in danger of insolvency in the near future will likely involve limiting the broad discretion given to unions and contributing employers when they negotiate plan contributions, and to plan trustees when they consider benefit improvements.

Figure 4 shows the distribution of participants in multiemployer plans and single-employer plans by the funding ratio in the plan. As you can see, most participants in the multiemployer system are covered by plans with a funding ratio of less than 50 percent.

On the other hand, most participants in the single-employer system are in plans with funding ratios greater than 60 percent. This is not a new phenomenon.

Figure 4 shows that for several decades the funding ratio of plans in the multiemployer system has been consistently and significantly less than the funding ratio for single-employer plans. The relatively lower funding ratios of multiemployer plans put their participants at greater risk when our economy encounters adverse conditions, such as the Great Recession.

While there are many challenges facing participants in the multi-employer plans, I want to return to the first issue I discussed earlier. The looming insolvency of the PBGC multiemployer program

could be the most drastic consequence to those affected by plan insolvencies.

If this insurance program becomes insolvent, the only money available to provide guaranteed benefits will be incoming premiums, and that will cover only a fraction of the benefit that we cover now. This will be catastrophic for many people: current and former workers, retirees, beneficiaries, their families, and their communities.

Employers are also concerned and are pushing for action to prevent further damage in the system. As many have already said, and I cannot overemphasize it, this problem is now. As more time passes, it will become increasingly difficult or impossible to craft a solution that could be viewed as fair or even viable.

I appreciate the leadership of the members of this committee in addressing the challenges faced by multiemployer plans and the PBGC multiemployer program. And I look forward to continuing to work with you to ensure that the PBGC guarantee is one that workers can rely on in the future.

And I will do my best to answer whatever questions you have.

Co-Chairman BROWN. Thank you, Director Reeder. A pretty sobering presentation.

[The prepared statement of Mr. Reeder appears in the appendix.]

Co-Chairman BROWN. The task that the 16 of us face is not easy. Our success, as you point out and others on this committee have pointed out in their States and districts and here, is that our success is critical for the millions of workers and retirees and companies that they work for across the country.

I want to ask you, Director Reeder, a series of questions to help us understand what is at stake, what action means, what inaction means.

Start with this: what happens to these plans and benefits if nothing is done? Walk us through so we understand the severity of this and the importance of doing this by the end of the year. Walk us through the fallout, not just for your agency, but for retirees and current workers. Keep your answer to what happens to the workers and the retirees.

Mr. REEDER. If you do nothing today, workers and retirees will continue to lose the benefits that have been promised to them. That is the red zone in the crescent-shaped chart I showed earlier. People will continue to lose this red benefit. And there will be dire consequences.

If you do nothing for the next couple of years, you will erase the green part without a significant infusion of cash to the PBGC.

Right now, the administration has laid out a proposal for increased premiums to pay the benefits that are promised, and that is at \$16 billion spread out over 10 years. The longer we wait to put that money into the PBGC, the more that money will have to be over a shorter period of time.

Co-Chairman BROWN. Thank you. Talk about the business side. What would be the impact on withdrawal liability for businesses who employ these workers, again, if we do nothing?

Mr. REEDER. If you do nothing, the withdrawal liability, which is already significant, will not go away. But I believe that most—and I think the consensus at PBGC is that most—plans that will

be facing insolvency in the near future will not terminate, and they will continue on. So there will not be a mass withdrawal.

And so employers will not incur withdrawal liability, but they will have a continuing obligation to make a contribution to a plan that has already become insolvent. So they are making contributions for active workers for benefits that they will never get.

Co-Chairman BROWN. Thank you. We are seeing—obviously, we all hear from pensioners in our State about what has happened to benefits in many cases. And I wanted to ask you about that.

The minimum guaranteed benefit PBGC pays to retirees if a plan fails is already much lower than the retirement these workers earned, that they bargained for, that they gave up pay raises for, that they budgeted for when taking out mortgages, and that they count on to pay their bills.

I remember many years ago a steel plant ended up in PBGC, and the workers got huge cuts in what they expected as the minimum payment you all made.

Absent congressional action, would the PBGC even be able to pay that minimum guaranteed benefit?

Mr. REEDER. No. We would be cutting to about one-eighth of what the minimum benefit is, a little less.

Co-Chairman BROWN. Talk more about that. So you would be—the minimum benefit, which is markedly less than what people were promised, what they negotiated, what they were getting, what they thought they were getting, that minimum benefit is already small, relatively. You would be forced to cut the average benefit how much then?

Mr. REEDER. If they are making \$8,000 in guaranteed benefits today, they would get less than a thousand dollars. I am talking about an annual number.

Co-Chairman BROWN. So it would be cut. It would be cut down to one-eighth perhaps—

Mr. REEDER. Or less.

Co-Chairman BROWN [continuing]. Of what they were getting.

Mr. REEDER. And, Mr. Chairman, I have to point out—

Co-Chairman BROWN. One-eighth of a smaller number already.

Mr. REEDER. Yes.

Co-Chairman BROWN. Okay.

Mr. REEDER. Yes. These are modest benefits to start with. As I showed you earlier in the 707, the highest benefit there that was promised, that was earned under the plan, was about \$40,000. It is a rich plan in the multiemployer world, but it is a modest benefit. And as you can see, most benefits, more than half of the benefits, were much less than that, about \$15,000, \$16,000.

Our guarantee cuts it way down from there, cuts it by 50 percent or more. And then if we cannot make good on the guarantee, it is going to cut that low amount to one-eighth.

Co-Chairman BROWN. So it may have been, when you said \$40,000, it may have been \$3,000-plus a month. Then your guarantee is maybe \$1,200 a month, and this would cut it by 70, 80, 90 percent below that, beyond that, more or less.

Mr. REEDER. You are faster than I am in math.

Co-Chairman BROWN. No, I am not. [Laughter.]

So after that devastation, you know, we have the PBGC guarantee, which is much less. We have companies going out of business because of the withdrawal liability issue; we have PBGC paying way less than you normally paid.

If Congress then steps in to ensure the minimum PBGC benefit—the minimum PBGC benefit—what is the potential cost to taxpayers then?

So we do nothing, after all that devastation, we have done nothing, then Congress needs to step in to ensure the minimum PBGC benefit. What is the potential cost to taxpayers then?

Mr. REEDER. The number that is out there now that we have produced is \$16 billion over 10 years beginning today. So if we delay, that number is going to move. But that keeps PBGC alive for approximately 2 decades. And it may need more after 2 decades.

Co-Chairman BROWN. So you talk about what inaction means. What you are saying is, after the pensions have been cut, the businesses have suffered, the workers have lost their plan, after all that, the taxpayers would still have to pay a massive price to keep the PBGC in operation.

Mr. REEDER. If Congress elected to provide that. Right now, we are not backed by the full faith and credit of the U.S. Government, and so Congress could elect not to do that. But I——

Co-Chairman BROWN. Well, I cannot imagine that. So thank you. Congressman Roe?

Representative ROE. Thank you, Mr. Chairman.

And just a couple of quick questions.

So basically, the options are this: you have an increased premium, decreased benefits, increased earnings, or a cash infusion. Does that pretty well summarize it?

Mr. REEDER. Yes, sir. I do not know about the increased earnings, because we are working, if you are talking about PBGC, we are working with the——

Representative ROE. No, I am talking about the plans.

Mr. REEDER. Yes.

Representative ROE. If the plans had, you know—obviously, if the market does well, their investments do well. That extends it a little longer. So that would be—some combination of those four things I just mentioned; there is not any other combination.

Mr. REEDER. Yes.

Representative ROE. And let me ask you just a couple of other questions. How much of a premium increase would it take? And why is there such a disparity—I think I know the answer—but why is there such a disparity between the single and multi plans and what is paid into the PBGC? And I know this is negotiated as an hourly wage and so forth. I know all that. But why are there—so are single-employer plans negotiated plans too?

Mr. REEDER. Are you talking about the amount that goes into the plan, not the premium?

Representative ROE. No, the premium that goes to the PBGC; there is a huge disparity between a multi and a single.

Mr. REEDER. Well, that is not negotiated. That was set back in 1980 and again revised in about 2000. And it was set low in order to—in 1980, it was not that low, and it was not increased with inflation.

Representative ROE. Okay.

Mr. REEDER. Whereas the single side has been increased with inflation, as have premiums. Premiums have increased and the guarantee has too.

Representative ROE. So what if you made the premiums the same? That is more cash coming into the PBGC.

Mr. REEDER. Well, that would definitely do the trick, but that is a lot—that is, the disparity is so wide that making them the same would be——

Representative ROE. But again, that is my question. Why is that disparity so wide? They are both a defined benefit pension plan. Why was there ever allowed to be that much disparity?

Mr. REEDER. I believe there was a perception in 1980 when the law was written that because there are lots of employers contributing to the plan that it was less likely to become insolvent.

Representative ROE. Okay, which was wrong.

Mr. REEDER. Yes, sir.

Representative ROE. Badly wrong. And when we look at this, you said the way to make this function—as I understand Senator Brown's questioning—is, it is maybe \$1.6 billion a year over 10 years from the taxpayers that would do exactly what?

Mr. REEDER. Just to put a finer point on it, we are talking about premiums from the plans. Many regard that as a tax, but it could be income taxes, but the proposal is increased premiums, and that would keep PBGC's multiemployer program afloat, we believe, for approximately 2 decades, maybe longer.

Representative ROE. Okay. So in other words, however that \$1.6 billion a year comes in, whether it is premium increases, earnings, whatever, whatever combination, am I getting that right?

Mr. REEDER. Yes, sir. But the earnings are not likely because we are starting with only \$2 billion, and we are going to go down really fast.

Representative ROE. Okay. So there is an opportunity. So how much would the premiums have to go up?

Mr. REEDER. We are talking about an average of \$1.6 billion and I guess an average of five, five-and-a-half times.

Representative ROE. Okay, so they would have to go up multiple. Could you bring this up on a graduated—reduce the premium a little bit so you do not get all the bad medicine in one year? I mean, that would be hard to swallow.

Mr. REEDER. I think the proposal is to do that.

And let me also say that that is not a flat-rate premium. It would introduce a variable-rate premium that would be higher for less funding.

Representative ROE. Okay. And in your testimony, you noted that financial assistance to multiemployer plans is technically a loan to the insolvent plans, but only one of these loans has ever been repaid, according to your testimony.

What happens to these loans when a plan cannot repay them? Does the PBGC ever recoup that loan?

Mr. REEDER. No, except in that one case.

Representative ROE. In the one case, and that was not one where it was a long term, as I read a little more detail about it.

You mentioned that the variable premium proposal in the President's budget in 2019 is projected to keep the multiemployer program alive for 20 years. Is that correct?

Mr. REEDER. Yes, sir.

Representative ROE. What do you think? I mean, the employers that I have talked to are really pushing back on the premium increase. And I understand that; it is an extra cost to their business. I do get that. But there is going to have to be more money from somewhere. I mean, after hearing this, it is not complicated math. We know exactly—it has to come from one to three or four places. Am I correct?

Mr. REEDER. Yes, sir.

Representative ROE. Okay, thank you.

I yield back.

Mr. REEDER. Thank you, Dr. Roe.

Co-Chairman BROWN. Thank you.

Thank you, Director Reeder.

Nobody contested in some cases premiums have been too low, but raising premiums alone only addresses part of the problem. Obviously, it does not even solve that part—

Mr. REEDER. Just PBGC.

Co-Chairman BROWN. Yes.

Congressman Neal?

Representative NEAL. Thank you very much, Mr. Chairman.

When we talk about multiemployer pension plans and the crisis that we are confronting, we often talk about plans slated to go insolvent. When we talk about plans like Central States and United Mine Workers, it is important to remember, however, that PBGC has been paying assistance to many smaller insolvent plans for a long period of time.

How many plans are currently relying on PBGC for financial assistance?

Mr. REEDER. Seventy-two.

Representative NEAL. Seventy-two. If PBGC were to go insolvent, as has been depicted by some, what would be the impact on multiemployer retirees who will then be relying on PBGC for benefit payments?

Mr. REEDER. That is an important point. Not only will participants in future plans that go insolvent be cut to the bare, bare, bare minimum, but the ones that are already getting assistance will be cut.

Representative NEAL. Acknowledging that the Mine Workers will likely be insolvent by then, this is all likely before plans like the Central States and other very large plans become insolvent. Correct?

Mr. REEDER. Yes.

Representative NEAL. Okay. What are the chances PBGC could become insolvent before 2025?

Mr. REEDER. I think there is a good chance that it happens in 2024. By "good," I mean not more than 50 percent. It is somewhere below 50 percent, but it could happen in 2024. We do not believe it will happen before then, just based on the plans we see coming in. And there is a tiny chance that it could happen in 2026. But



we are about 90 percent certain that it will happen by the end of 2025.

Representative NEAL. Mr. Reeder, why, given the climate that you have noticed across America today, why are the American people not paying more attention to what is happening to pension planning everywhere?

Mr. REEDER. That is a philosophical question.

Representative NEAL. Philosophical, but it is entirely relevant to what is happening everywhere. I read a piece this morning about a State on the East Coast where I believe that \$119 billion in liability is out there on the public side.

From time to time, we discuss the realities of what is happening with 401(k) plans, the catch-up provisions that happened after the recession; people are working longer. There have been pretty staggering consequences for retirement. And yet, it does not seem to gain the same traction that many other controversial issues do every day in America when you consider that there are people who are looking—in the audience perhaps today—at their pensions being cut in half.

Mr. REEDER. I think when you are looking at—the answer, by the way, in State and local may be different. But I think when you are looking at compensation packages, I think there is a human tendency to look at what you get today: health care, cash, other benefits that you are using today.

And if you have a limited pot, I think you are less likely to put a significant amount of that limited pot into the benefits that you are going to get in 20 years or 30 years.

Representative NEAL. Is it safe to say that most pension plans today in America, they would need a return north of  $7\frac{1}{2}$ , 8 percent annually to remain solvent?

Mr. REEDER. I certainly would not say that about most pension plans, but I would say that about most critical and declining plans. They would need significantly higher earnings than that to remain solvent.

And I think that is true with other plans that are not critical and declining. There are some yellow zone plans and other red zone plans that would need earnings north of that to stay afloat.

Representative NEAL. Thank you very much.

Thank you, Mr. Chairman.

Co-Chairman BROWN. Senator Portman?

Senator PORTMAN. Thank you, Senator Brown.

And, Director Reeder, we appreciate your coming today and, more importantly, the help you have given us already on this commission.

PBGC, as some of you know, has some real experts in this area.

And your assistant general counsel, Connie Markakis, and your actuary, Julie Cameron, come highly recommended, and we need them.

Mr. REEDER. We miss them.

Senator PORTMAN. Thanks for letting us borrow them.

This is tough. And you know, your testimony today was very sobering, because it lays out clearly the huge challenge that we face.

You were just talking back and forth about when PBGC might go insolvent. And it sounds like 2025 is the year that you have

kind of focused on, understanding there could be some changes that push that a little forward or a little bit back. That is only 7 years from now, and that is PBGC insolvency, which is sort of the most dramatic of the potential problems that we face.

And to me, the drastic cuts in the earned pensions—again, we talked a lot about that today, what that is, but if you go insolvent, it is about a 90-percent cut probably to the Central States fund and the Teamsters. Is that about right?

Mr. REEDER. Yes. It is on the order of that.

Senator PORTMAN. And then the impacts to the broader economy. Central States has said that the insolvency of their fund alone would result in less than half of the promised full benefits.

And again, if 400,000 Teamsters see the PBGC go under in 7 short years, then it is about 90 percent. Is that about right?

Mr. REEDER. Yes.

Senator PORTMAN. And how about the mine workers? As I understand it, there are about 76,000 mine workers who would lose, on average, about 21 percent of their promised benefits if their plan goes insolvent—and of course, much deeper cuts if PBGC goes under.

What would it be like for the mine workers if the PBGC runs out of money?

Mr. REEDER. They would be cut down to about the same level as the——

Senator PORTMAN. About the same as the Teamsters?

Mr. REEDER. Not percentage-wise, because their benefits are lower, but the dollar amount would be cut down to the same amount.

Senator PORTMAN. Yes. Pretty modest pensions there with the mine workers.

Mr. REEDER. Yes.

Senator PORTMAN. Average about 600 bucks a year, right?

Mr. REEDER. Very small. The retirees are averaging lower than the actives. The actives would suffer more because their benefits are richer.

Senator PORTMAN. Yes. Active, about 10,000; retirees, about 100,000 mine workers.

Mr. REEDER. That sounds right.

Senator PORTMAN. Is that about right?

Mr. REEDER. I have the numbers in here, but I——

Senator PORTMAN. Yes, it is upside-down. In other words, that is a big problem.

Mr. REEDER. Yes, sir.

Senator PORTMAN. And already, again, the benefits are very modest.

Then there are probably over 100 additional multiemployer plans that are at risk, right, in addition to those two big ones?

Mr. REEDER. One hundred and thirty.

Senator PORTMAN. And so, you know, I do not think most of my colleagues in the broader Congress are focused on this yet. But I think we have to get these numbers out there and talk about it.

Could you talk a little about the cost to the government of insuring guaranteed financial assistance payments the longer we wait?

In other words, for the government—and I would say to the taxpayer—what is the danger of waiting?

Mr. REEDER. We would just have to raise the same amount over a much shorter period of time. Right now we are talking about \$16 billion over 10 years.

Senator PORTMAN. And that is just to keep PBGC afloat.

Mr. REEDER. Yes. I thought that was your question.

Senator PORTMAN. Yes.

Mr. REEDER. But just to keep PBGC afloat. And the longer you wait, the more compact that number will be.

Senator PORTMAN. So the \$16 billion over 10 years is your calculation.

Mr. REEDER. Yes.

Senator PORTMAN. And you are saying that if we were to wait a couple of years, you are going to have more requirements in a shorter period of time.

Mr. REEDER. And a shorter period of time to ramp up to the higher premiums.

Senator PORTMAN. Can you talk for a second about the contagion effect? I do have employers come to see me quite often very concerned about the impact on their solvency. And if there were an insolvency by one of the big plans, or certainly by PBGC, you know, the possibility is that their liability would be such that they would become bankrupt, and we understand that. And a lot of small businesses in Ohio are very concerned about that.

But could you talk a little about the broader contagion on the economy and what you think would happen based on your experience?

Mr. REEDER. Well, we do not have a lot of experience with big plans going under.

Senator PORTMAN. There has actually been nothing like this ever in history.

Mr. REEDER. Right.

Senator PORTMAN. But let us assume that we do not act and we allow the status quo to continue because we have gridlock here, we cannot get anything done, we cannot figure out a solution, all the answers are tough, and we end up with a situation where these plans go insolvent, but also PBGC, in 7 short years, goes insolvent. What is the impact on the economy?

Mr. REEDER. Well, as I mentioned earlier, I think that there will be very dire consequences for the communities where many of these people live.

I do believe that there is a possibility of contagion affecting other plans that are much more healthy. We cannot measure that yet, and we are working on that.

Senator PORTMAN. But talk about what that contagion means.

Mr. REEDER. Well, the contagion I normally hear, when people are using the word in the context of the multiemployer world, is when a plan, a large plan—it does not necessarily have to be large—but when a plan goes under but its contributing employers also contribute to other plans—and there is a hypothesis that if a plan goes under and incurs mass withdrawal liability, that puts those companies under—that that could affect the health of many other plans.

And this is particularly true in the Teamster world.

Senator PORTMAN. Yes. So let us be specific. When the contractors were in this week talking about infrastructure, I asked them about pensions. Some of these contractors have as many as five different multiemployer plans. So they may have a plan with the carpenters, they may have a plan with the Teamsters, they may have plans with other operators.

And you are saying that if one of the big plans goes under, let us say the Teamsters plan, that company will not be able to make its premium payments to the other plans as well. And the contagious issue is that there is contagion with these other plans.

Is that accurate?

Mr. REEDER. Well, that is the hypothesis. One big variable is that a lot of these plans, such as 707, will not actually terminate and will not actually trigger mass withdrawal liabilities, and employers will just continue to contribute to the plan. It is a little bit sad, because they are contributing to an insolvent plan, but it does not put the employers under.

And I would suspect that many of the plans that go under in the near future, especially the big ones, will be hard-pressed to terminate and declare a mass withdrawal.

So that is the big variable in measuring how serious the contagion effect really is.

Senator PORTMAN. Yes. Well, I think the broader impact—my time is well over; I apologize, Mr. Chairman—but I think that that is the bigger issue we have to talk about too. As bad as it is for these retirees and for these individual plans, it also has a broader impact on our economy. Not just the local communities that will obviously be affected, but the larger economy.

Thank you, Mr. Chairman.

Co-Chairman BROWN. Thank you, Senator Portman.

And Rob is so right about that in terms of the contagion effect.

I think it is important to remember that two-thirds of these plans are in fact in the healthy green zone area. But it means the system can be saved if we act in the months ahead.

Senator Heitkamp?

Senator HEITKAMP. Thank you, Mr. Chairman.

I want to just walk a little bit through history, Mr. Reeder. And so I would like to talk about how we ended up with pension insurance in the first place. I know you talked a little bit about that to begin with.

But prior to 1974, there was basically no protection for private pensions in this country. So as a worker, when your employer went down, you were on your own; you were really out on the street.

And we saw that happen with the old automaker Studebaker. It halted U.S. operations at the end of 1963, and it terminated its pension plan. And for 4,000 of their workers, including for some who had worked there 40 years, they lost the bulk of their pensions.

That event, I think, woke up the people of this country, and it stirred Congress to act because they looked around and thought, we have to have a better system to protect our workers, to make sure people are playing by the rules, and to make sure pension promises are kept.

Mr. Reeder, I am sure you know that the legislative initiative that resulted from Studebaker's collapse was ERISA and then the agency that you chair.

And you know who the chief proponent of that legislation was. It was Jacob Javits, a Republican Senator. And it was signed into law by a Republican President: Gerald Ford.

When Gerald Ford signed the bipartisan legislation, he said ERISA will provide assurances that retirement dollars will be there when they are needed. That was the promise.

And that is what this is all about: making sure retirement dollars are there when they are needed. And I mentioned that Republican history because we all need to realize that this is a bipartisan issue.

To be sure, we have heard a lot about reforms that need to happen, and I am all ears. And I think we should take a hard look at how we can improve the retirement guarantee system. This is probably a long time coming; it should have been addressed years ago as we looked at changing demographics and as we looked at more and more erosion of defined benefit plans to a 401(k) system.

But right now, we have an emergency. And I think Senator Portman outlined the contagion effect, so no one should feel safe. This could result in dire consequences. And at the tip of the spear is our Central States pension and the Mine Workers.

So simply raising premiums is not going to get the job done. I think we all need to recognize that, that there are no easy solutions.

My colleagues and I have put forth the Butch Lewis Act, which is a type of loan program that would help workers rehabilitate their pension plans so that they can keep their benefits.

I know there has been a fair amount of criticism of that as a result of what people see as overt involvement of the Federal Government in providing that level of assistance and that level of loan guarantee.

But I want to look at the history of loan programs in the United States of America and with the American economy.

AGI, we loaned them \$67 billion. Bank of America, we loaned them \$45 billion. Goldman Sachs, we loaned them \$10 billion. JPMorgan Chase, \$25 billion. These are just a few of the big financial companies.

We also helped the automakers. General Motors, we loaned them \$50 billion; Chrysler, \$10 billion; U.S. Airlines, up to \$10 billion; Farm Credit, \$4 billion in bonds.

And I raise that history because I think that, as we are looking at the amount of Federal taxpayer exposure to help at times of economic crisis in this country, we have been willing to disburse a whole lot of money. In fact, by our calculation, when you add it all up, it is over \$600 billion.

And today, the taxpayers have come out ahead as a result of that. We have not only prevented catastrophic economic decline, but we have been able to right the ship and improve the economy.

So when big corporations get in trouble, the answer has been clear: we help them out.

As distasteful as that may be and as politically challenged as that may be, we have stepped up, and the Federal Government has become the lender of last resort.

So, Mr. Reeder, would you agree that loan programs in the past have been used in times of economic crisis?

Mr. REEDER. I believe so.

Senator HEITKAMP. And do you believe that challenges facing funds like Central States and other similarly situated plans could cause massive economic damage to workers, their families, small businesses, and, by contagion, the entire economy? Would you agree?

Mr. REEDER. Yes, I agree with that.

Senator HEITKAMP. So clearly, when it is the banks or the insurance companies or the automakers, we provide loans to stabilize our economy.

I am open to anything that works, but I would ask colleagues to take a similarly open-minded position on helping during this time.

And so, if I can just close with a statement that, yes, we have to look at the macroeconomic challenges that we have.

But behind you are a number of workers who do not know that there is any certainty and economic dignity for them and their families. Watching this hearing are other hundreds of thousands of American workers who wonder when is it their turn to get listened to.

And so I just want to make sure that we do not dismiss out of hand plans that would in fact respond to this challenge the way we have responded to many, many dire economic challenges in the past, and that is to provide the security and support to make sure that these funds are fully funded and that our pensioners get the pensions they deserve.

Thank you, Mr. Chairman.

Co-Chairman BROWN. Congressman Norcross?

Representative NORCROSS. Thank you.

I appreciate the hearing on this. And it is remarkable that we have been talking about this a long time, but nothing has happened. And when we think about the PBGC and the numbers you go through, there are, what, about 1,400 plans on the multi side?

Mr. REEDER. Yes, sir.

Representative NORCROSS. And there are about a hundred of those critical or declining?

So when we had an opportunity as a country back in the 1990s, when things were going really well, there was a rule in place that said you can only fund them to 110 percent or they lose their tax status. Correct?

Mr. REEDER. Yes.

Representative NORCROSS. So that prevented us from creating a better cushion for the times that were not so well and to go back on that. So that is a structural issue.

And what we heard about here today is PBGC, by its nature, is the insurance company, and we heard how we can keep it, which is \$16 billion over 20 years. So it is the healthy plans that would have to pay that. If you are insolvent, you are not paying your premiums. Is that correct?

Mr. REEDER. Well, yes, healthy a little bit less, yes.

Representative NORCROSS. So here we are, we are trying to hold up an insurance plan that by design is created not to pay enough money to those people who are retiring. It is set up this way. This is the insurance we bought. We have the formula set for those insolvent plans. Correct? That is where we get the \$12,870?

Mr. REEDER. That is right.

Representative NORCROSS. We bought cheap insurance. And when you try to compare that to the single employers, they made a different decision to pay much different premiums.

So we are trying to create and prop up an insurance company that is already structurally flawed by the money they are paying out. If you were as healthy as a horse and plans were to go under, they would still get a rotten benefit paid out.

So we need to understand that there are two very different issues here. And when we look at what the problem is, the problem for PBGC is one thing, but it is the problem of the actual insurance for those pension plans. Why are they failing? What is it that we are doing that we have these massive failures?

Nobody is talking about that. We get this great loan program and then we are still in the same boat. The causes for those different plans to go down—bankruptcy, does that play a role in it?

Mr. REEDER. Yes.

Representative NORCROSS. Why don't you explain how bankruptcy—if a company goes under and they have \$100 million worth of unfunded liability, where does that go?

Mr. REEDER. It usually goes to the back of the line.

Representative NORCROSS. The last man standing—everybody else picks it up. Correct?

Mr. REEDER. That is right.

Representative NORCROSS. Okay, so that is a structural issue that changes.

Pension—what position does that have when a company goes bankrupt? Do they get paid first?

Mr. REEDER. No.

Representative NORCROSS. No. They rarely if ever—the pension obligation rarely if ever gets paid from the bankruptcy. Is that correct?

Mr. REEDER. In the multiemployer world. In the single-employer world—

Representative NORCROSS. But we are not talking about that.

Mr. REEDER. Yes.

Representative NORCROSS. So that is a structural problem. If we change everything here and we do not change that, we are back in the same boat.

Let us take one step further: the assumptions that are made. When a plan is healthy or it is in the red zone or critical and declining, it has made that decision based on over-assuming the pay-back on a yearly basis. Each pension plan makes a decision each year how many assets come in, how we are going to pay it out. Is that correct?

Mr. REEDER. That is right.

Representative NORCROSS. So if I overpromise my employees that you are going to get a higher pension, that starts us down the road where that plan could fail.

Mr. REEDER. That is correct.

Representative NORCROSS. So how do we fix what got us into this problem? I do not hear you talking about the pension position in bankruptcy. I do not hear us talking about the actual assumptions that are given out. You are thinking you are getting too much money in or you are promising too much money out, because those in the green zone have been making those decisions properly.

Now, we were all hit by the same market downturns. But we have structural problems, wouldn't you say?

Mr. REEDER. Yes. And I agree, as I outlined in testimony, I agree that we do need to make changes to those structures if we are going to prevent this from happening in the future.

Representative NORCROSS. So anything we do to fix the current situation so PBGC is still alive has to go hand-in-hand with structural changes. If not, we are just going to keep going to the healthy plans saying, hey, I am glad you made those tough decisions, now you have to pay up.

Because the part I missed is, during the downturn of the recession when the banks failed, they did not go to the other banks and say, "Oh, you are going to pay."

Trying to limit the source to just those in the plan who will get nothing out of it, I think is wholly unfair. If we can do it for the auto companies and the banks, too big to fail—do you know what is too big to fail? Those pensioners. And we have to come together to make sure that they get an opportunity, because they are getting a raw deal here.

And there is a lot of blood in the water from a lot of different people. But the cost of doing nothing is unacceptable.

I will yield back the balance of my time.

Co-Chairman BROWN. Congressman Schweikert?

Representative SCHWEIKERT. Thank you, Mr. Chairman.

And forgive me. As often, when you are running around from meeting to meeting—at some point we should have a discussion about scheduling. I say we start doing these in the middle of the night. But then, being a House member, we are always annoying to Senators. [Laughter.]

I actually want to walk through just a couple of math concerns.

First off, you had made a statement earlier that I had picked up that the number of multiemployer plans that you saw as in the green zone, you know—

Can I ask you, if I came to you right now with your background—and oddly enough, I think you have one of the most interesting jobs in government—and said, you are going to use a perpetual horizon, you are going to calculate to high-quality bonds as your net-present-value calc, how many plans truly stay within that green zone if we were actually to use those types of actuarial tests?

Mr. REEDER. I do not know the exact number, but as I mentioned earlier, green zone does not mean—

Representative SCHWEIKERT. Healthy.

Mr. REEDER [continuing]. Healthy. It means not distressed. And so I do not think most of those green zone plans do use the bond rate you refer to.

Representative SCHWEIKERT. Okay. We did some of this math in our office a few weeks ago, and we walked away a little—what



would be the right word?—shaken that the number, like, tripled of what we thought would be stressed, particularly if they were single-employer plans and used those types of test measurements.

So the reason I bring that back up again for all of us is almost exactly what you were saying. As we do this, we need a holistic approach that actually just does not fix the current identified centers, but actually says, how do we make this whole system much more robust?

Now I have the question for PBGC. If I came to you and said—I look at some of my notes on the reports of what your identified liabilities are. And there are some statements I have come across—and I need you to help me just because of time constraints—that look like they were some outside reports saying your liabilities may be double what you report on your annual statement.

Help me understand where those differences are coming from.

Mr. REEDER. We use pretty conservative interest rate assumptions. But in calculating, some people may—and I understand the CBO has done this—some people may actually factor in a variability analysis.

Representative SCHWEIKERT. And the variability analysis would be a projection of a number of plans that would make claims or a cascade effect or what?

Mr. REEDER. Well, it is the cost of—it is the value of assets that are not invested in fixed-income funds.

Representative SCHWEIKERT. Okay.

Mr. REEDER. And it is a variability factor. And just in starting the answer to this question, I have gotten myself in the weeds above my head. And I would be happy to provide you with backup on a QFR.

Representative SCHWEIKERT. On your staff, do you have someone whom you consider to be sort of your freaky-smart quant or someone who can deal with a couple of creative ideas a number of us are talking about? Because there is not a single solution here. It is going to actually require lots of different inputs and maybe a couple of different types of financing mechanisms.

And in some ways, you might be the appropriate conduit to manage, control, house.

So I mean, do you have the bandwidth if someone like myself and a couple of us others came to you and said, would this mathematically possibly work if there were sort of these risk-sharing models, these other things that were also presented?

Mr. REEDER. We have more quant freaks per capita than any place on the planet. [Laughter.]

Representative SCHWEIKERT. That is a term of love, understand that.

Mr. REEDER. It is. It is. And I have to admit that two of them are sitting behind you, because they are on detail to the committee.

Representative SCHWEIKERT. Can I give you—can we grab your cards? Because I have a couple of things where either I am going to sound brilliant or like an idiot if I try asking them from behind the microphone, because I need a whiteboard.

But I want to know if some of the solutions we are trying to build in our office to present to the team here are actually sound.

And with that, I will yield back, Mr. Chairman.

Co-Chairman BROWN. Senator Manchin?

Senator MANCHIN. First of all, thank you, Mr. Chairman. This is an important meeting.

I would like to note for all of us, we are 4 months into this, 4 months in, and we do not have one agreed-on solution yet, not one agreed-on path from either side of where we are going.

And for 4 months—we have 6 months left to come up with something by legislation. We are going to have to agree that we have a crisis on our hands.

I have the United Mine Workers in my State, and so many people in my State have a very small pension that it will destroy people's lives.

And I do not know what progress has been made by staff on both sides—if we have agreements or disagreements. I would like to know that.

So hopefully by our next meeting, Mr. Chairman, we can get a status on the staffs, if we have agreement, any type of movement forward.

There has been a lot of good information that has come out. Congressman Norcross came across that bankruptcy—I am very much concerned about that. You have to fix the problem. And any time you put a financial institution in front of a human being, you have a problem. And that is what has been happening for far too long.

We are talking about putting undue burden on businesses. We do not want to do that. We just gave the greatest tax cut in the history of the United States of America—the greatest tax cut we have ever given.

You can sit here and debate it all day long—too much, not enough, whatever—but everyone got a benefit from that except the working people. And now we are afraid that we are adding a little bit more of a premium, and the premium is not going to solve my miners' problem.

The premium right now, short-term premium, is not going to fix what I have facing me in a few years. We need to know how we can do this.

And the only way you are going to be able to do it is be able to have a loan program. There is no other way of infusion of cash that can keep us from this crisis.

So my question to you would be, compare this crisis that we are going to be facing with what happened in 2008 when we bailed everybody out. On what scale would you say is the crisis that we have looming between our State's pension and the miners' pension? The miners hit first. And if the miners hit first and we do not do something, what does it do to your PBGC and how quickly does that start accelerating to your 2025?

Mr. REEDER. That is the main accelerator to 2025.

Senator MANCHIN. So the UMWA, if we do not fix that one first—we had a fix for this, you understand. We were using AML money. That is coal money. Every ton of coal we mine, there is a fund we pay into, abandoned mine land. And they have taken that and used it for everything but what it is supposed to be used for. That is the problem we have.

We cannot get the legislators to look at how to fix a problem and do it with money that we are generating from products that we are

selling. And now we are looking—we are not looking for a bailout. But if, as Senator Heitkamp had mentioned, we are able to come to the aid of every corporation that has an effect on the economy of this country, surely to God we can come to the aid and help of the people who made the country. That is what we are talking about.

So we need some suggestions. Every time, I ask somebody who comes and sits where you are sitting to help us, because we have to have some things that we are going to put on the table, and I think the public needs to know what we agree and do not agree, because this is a bipartisan challenge. It is going to take a bipartisan solution.

And right now, we have gotten nowhere except having great information and testimony. So if you are recommending that we have to have an infusion of cash or we need a borrowing, the only thing I can see that is going to help us right now is if we have a borrowing, the same as we did with the banks—a bailout. They paid it back. We are going to pay it back.

And we have corporations now that can afford to pay a little bit more, I am sure, if you look at the bottom line of what we were able to do with this last tax cut.

Do you think that that is feasible and it is realistic?

Mr. REEDER. Well, we have been working hard. And we have been working with staff. I think we have all identified the dials. Congressman Schweikert may have another one, the dials that can be turned. But we do not have suggestions as to where they should be turned.

We can help you analyze—

Senator MANCHIN. No, but, I mean, you know how much cash it is going to take.

Mr. REEDER. Yes, sir.

Senator MANCHIN. How much cash is it going to take to keep the United Mine Workers of America from going down the tube in 2022? We are at about \$3 billion, \$3½ billion the last time we looked. We were about \$2 billion when we could have fixed it. We could not get it on the bill; they separated that out from the health care, which was absolutely horrific, what was done. This would have been over; we would have had that behind us and been working towards our Midstate pension. We could have, I think, had a pathway forward.

So what we need to know is, how much money is it going to take to keep the miners from going down the tube, to keep the Midstate from rolling up into one of the greatest calamities that we have had?

Have you all evaluated the crisis that we have coming?

Mr. REEDER. We have.

Senator MANCHIN. Is it as great as the 2008 collapse?

Mr. REEDER. I am not an expert on the 2008 collapse, but there is bound to be some comparison. I do not know.

Senator MANCHIN. What part, how much of the economy—you know, can you help answer these questions if I would ask them?

Mr. REEDER. Well, we know the number of participants that will be affected. But, as has been pointed out here, the contagion of the

effect on those participants is a lot broader. It is their families and their communities and, to some degree, the whole country.

Senator MANCHIN. Well, we have 6 months left. We have to have a piece of legislation to go to the floor. And I am determined to get a piece of legislation that fixes it.

Bankruptcy—you have to fix bankruptcy to keep it from repeating itself. The human being should be at least equal to the financial institution when it comes to divvying up what is left when a bankruptcy happens. When there is an intentional bankruptcy and we have diversion going into different companies, we should be able to reach back; there should be a claw-back provision in bankruptcy that allows us to keep the individual, the human being whole.

And if the premiums have to be increased for the businesses, we want to make sure we do not put them in a hardship. But if we have given them the greatest tax cuts in the history of this country, we could negotiate something that would not be a hardship to them. This is all reasonable.

But someone has to tell us how much cash it is going to take, where we are going to get it, and what is the payback. And we have got to start fixing some problems here.

I am willing to start voting on fixing a problem. If we have a discrepancy, then we have to sit down and work through that. But my goodness, we have—I think the examples have been given here of what we have been able to do when we hit a crisis. I guess we are going to wait until 2022, and then I have to look at the miners and say, “Okay, we are here, guys.”

Most of these are retired widows, is what I am dealing with—\$595. And you take that away, they have nothing. They cannot make it.

So we are not talking about a windfall; we are talking about survival. And all I am asking for is compassion.

But we are going to need some help. We need some answers. And you know, you all, you have the expertise, and we appreciate it. We need you now to lay it on the table. Tell us what we have to have, and we will figure out how to make it happen.

Mr. REEDER. We can give you those numbers.

Senator MANCHIN. Thank you. If you will do that by our next meeting—

And if we can have some direction, Mr. Chairman, of what we want to start making some decisions on, I would appreciate that very much. Because I have to know if there is a difference that we have from one side to the other. Let us find out how we—and I think the public needs to know.

They cannot wait until November and say, okay, we have come to an impasse. I want to make sure we start.

Mr. REEDER. Can I make one point on the mine workers?

Senator MANCHIN. Yes, please.

Mr. REEDER. And that is, I understand the discussion about premiums, and I understand the disagreement about premiums. But an infusion to keep PBGC afloat will have a very positive effect on mine workers, retirees, and beneficiaries.

Senator MANCHIN. What I am saying is, that premium will not save me by 2022.

Mr. REEDER. Well, but it will save your participants; it will save most of your participants.

Senator MANCHIN. Keep them whole?

Mr. REEDER. No, it will not—

Senator MANCHIN. I know that. I am just saying—I am only talking \$595.

Mr. REEDER. Okay.

Senator MANCHIN. You take me down to a hundred, two hundred dollars, these people are destroyed. I cannot let that happen.

But I am saying I need to know what it does and what extra cash we are going to take—or a loan or AML money or something—and then we have to repay that. That is what we are asking for.

We are not asking for a handout; we are not asking for a bailout. We are asking for a bridge to get us from point A to B, which we have done in so many instances in this country.

Mr. REEDER. We can tell you how the dials calibrate, but we cannot tell you which one to turn.

Senator MANCHIN. By our next meeting then, hopefully we will have some answers.

And hopefully, Mr. Chairman, we will be able to start looking at our differences or coming to an agreement and moving a piece of legislation forward.

Co-Chairman BROWN. Thank you, Senator Manchin.

We have hearings in June and July. We will, I hope, start—I mean, the staffs are already talking; we are already talking individually among ourselves. I would hope we would have some serious negotiations beginning no later than July.

We have put the Butch Lewis Act out, which we think is actuarially sound. There has been some bipartisan support for it in the House, less so in the Senate, but we are open to other discussions with my Ohio colleague and others on both sides.

Senator Smith?

Senator SMITH. Thank you, Senator Brown.

And thank you so much, Mr. Reeder, for being here today.

I am gleaming from this committee a sense of real urgency and a sense of frustration and a sense of real concern. And I appreciate you being here to answer our questions.

And, Senator Brown, I am really thinking about a meeting that I was at with Senator Heitkamp up in Moorhead just a couple of days ago. And I can tell you that that sense of fear and frustration and concern is even more intense amongst those folks who are trying to figure out how they are going to be able to take care of themselves.

And I appreciate what you are saying. You cannot give us the answers, but you can give us the data that we need to make the decisions that we need to make.

And another observation I have about this is that this is really complicated; it is really difficult. And we need people giving us this information and providing us with background who know what they are doing and have a background in this area.

And I would just like to thank you for your expertise on this area, if you get my drift.

I want to just go to this question of solutions. Because when I was in Moorhead and when I have, you know, been in other places

talking with mostly people in Central States, they keep saying, you know, we want solutions, we need to know what we are going to do about this.

And as I am understanding this—and I am not an expert—there are some ideas that have to do with premium increases and some ideas that have to do with loans. Is that right?

Mr. REEDER. Yes. There are other dials. I mean, you could—but those are two that are being discussed.

Senator SMITH. Those are two that are being discussed. And what would be the other? Give me an example of another dial that we would be looking at.

Mr. REEDER. Increasing the guarantee level so that when a plan does fail, for the people in it, it would be a reasonable insurance.

As others have referred to, changing the funding rules to make sure this does not happen again.

Senator SMITH. Yes, okay. And let me just ask you about this premium increase idea. I mean, if we were to go down that path, would that be something that would be sustainable or feasible for the businesses that would need to pay these increased premiums?

Mr. REEDER. Well, we believe it would be sustainable. It seems like a lot because it is a very large multiple of what they are paying now. But they have been paying very low premiums for a very long time.

Senator SMITH. Is there some concern that there would be sort of, like, a sticker-shock effect, I guess?

Mr. REEDER. Yes. There would be a sticker shock. However, the increased premiums under the proposal would go towards a variable rate premium so that you would only pay it to the extent you are underfunded.

Senator SMITH. Okay. And what about the loan ideas that have been proposed out there? There is certainly Butch Lewis, maybe there are others. You know, do you see those as being feasible also as ways of solving this problem?

Mr. REEDER. From a selfish point of view, from the PBGC point of view, if you can keep more plans off of our doorstep, it will keep us solvent longer.

Senator SMITH. Yes.

Mr. REEDER. But I think that the proposals are charged with controversies.

Senator SMITH. Right. Well, there is going to be a heck of a lot of controversy if all these plans, you know, become insolvent and it all falls on the PBGC, right? Then we have millions of people affected by this.

A lot of this has been discussed, but I just have—I want to just thank Senator Heitkamp for pointing out how we have mustered the political will and the kind of sense of common good to provide loans in other situations when we saw that organizations that are crucial to our economy were going to go out of business if we did not all come together. And I totally agree with her that that is a way.

I mean, if that, why not this? Seems to me to be so clear.

The other thing I just have to observe, Mr. Chairman, is that, you know, we just gave a \$1.5-trillion tax cut, which would have paid for the solution to this problem many times over. So this

makes me realize again that what we do not—you know, some people say, well, we have a math problem here. Well, I think what we have is a people problem. We have a real problem making sure that people do not literally, as the man I talked to in Moorhead, find themselves scooping poop in the local parks as the only thing that they can do in order to keep themselves in their apartment.

So I look forward to the increased conversation, more conversation about the solutions that we need to explore here to make sure that that does not happen anymore.

Thank you.

Co-Chairman BROWN. Thanks.

Congressman SCOTT?

Representative SCOTT. Thank you.

And thank you, Mr. Reeder, for being here.

I apologize for being late, but the Committee on Education and Workforce had a full committee hearing that started at 10:00, and four members of this committee serve on that. And so I would hope, Mr. Chairman, that we can have a little better communication in the future to avoid the conflicts.

Mr. Reeder, the PBGC has charged all of the funds a premium for essentially insuring up to the insured level. You have assets that are totally insufficient to pay the liabilities in the future. What is the legal and moral obligation of the PBGC to continue paying benefits even though the funding may be gone?

You may have a legal problem paying if you do not have the money, but what is the government's moral obligation to continue making payments?

Mr. REEDER. I am sorry. I consider myself a very moral person, but I am not an expert. I do believe that most participants and probably the public as a whole believe that the guarantee level, at least the amount that PBGC is obligated to pay, is a debt of the people of America. But I do not—that is not the law.

Representative SCOTT. But you believe, as I do, that having provided a guarantee and having people live under that guarantee, paying the required premium, they would expect, just from a moral basis, the payments to be made.

Now, Senator Brown has talked about what we are on the hook for if we do not do something. Have you looked—including the contagion effect—have you looked at the total government obligation that would be triggered if everything goes under, people losing their pension, not paying tax on it, going on food stamps and Medicaid and what the effect to the Federal budget would be if we do not do something?

Mr. REEDER. PBGC has not done that research, but I understand it is being undertaken, and other people have already taken long strides in that direction.

Representative SCOTT. The last-man-standing rule—can you explain what corporate assets are vulnerable to insolvency of plans? Is the whole corporation subject to pay off the deficit, or is there some limit to what a corporation can be asked to pay as the last man standing?

Mr. REEDER. If withdrawal liability is in fact triggered, then the corporate assets would be subject to—and all the assets of the corporation. There is an exception for a small employer that wants to

liquidate. If the small employer liquidates, they can set aside a small amount or a percentage of the sales proceeds to pass along or to keep. But generally, the entire corporate assets are subject.

But let's bear in mind that withdrawal liability is invariably negotiated between plan trustees and the employers themselves. And plans do not like to get employers illiquid. And so they will negotiate something lower to keep the employer afloat if the employer has the means to stay afloat.

Representative SCOTT. But the entire corporate—all of the corporate assets are vulnerable to pay debts owed by the funds?

Mr. REEDER. Yes.

Representative SCOTT. There are legislative proposals that would allow you to identify troubled plans and invest some money to get them kind of over the hump. Are you familiar with those plans, one introduced by the gentleman from Texas, Mr. Sessions, which would allow investments into the funds to get them over the hump if people will stay in the plans?

Mr. REEDER. Yes, we are. We are aware.

Representative SCOTT. Do you have that authority now?

Mr. REEDER. No. Well, we have the authority to approve alternative withdrawal schemes, and we do, and we are analyzing them. And we are working with Senator Sessions's staff to come up with—

Representative SCOTT. Representative Sessions.

Mr. REEDER. Representative Sessions, thank you; sorry.

Representative SCOTT. You are working with his staff to see if that is a possible solution, whether you already have the authority or whether you need legislation?

Mr. REEDER. We do have the authority, and we are working with him to come up with regularized procedures for making approvals of those alternatives.

Representative SCOTT. Thank you, Mr. Chairman.

Co-Chairman BROWN. Thank you, Congressman Scott.

We will do a second round for those who want to stay. And I know Congressman Norcross is able to, and I think Congressman Neal has a couple of questions.

Thank you for your candor with all of us and your cooperation.

The administration has put forth a proposal to raise premiums in order to stabilize the PBGC insurance program. And I understand the importance of that as a component in this solution.

First question: does this proposal, does the administration's proposal, do anything to prevent the insolvency of the Mine Workers or Central States or Bakers and Confectionary of Ohio, Southwest Carpenters?

Mr. REEDER. No.

Co-Chairman BROWN. Nothing; okay. You can only, it seems to me, turn the premium—I guess you said dials earlier, dials, levers—you can only turn the premium dial so far because multiemployer plans pay premiums out of the same pot of money as benefits. Correct?

Mr. REEDER. Yes.

Co-Chairman BROWN. Okay.

Mr. REEDER. The proposal has a waiver provision that allows the PBGC to waive premiums if it is going to make the plan worse off.



Co-Chairman BROWN. If you raise premiums, though, do you risk accelerating the insolvency of some of the most vulnerable plans?

Mr. REEDER. Yes, that risk does exist, and it is recognized in the proposal by allowing us to waive increased premiums or premiums altogether in a situation where it would make the plan worse off.

Co-Chairman BROWN. So how would you prevent that proposal from making the financial position of these plans even worse?

Mr. REEDER. Well, we would have to analyze the—in other words, I do not think the premiums would be levied on critical and declining plans. I think it would be counterproductive to increase the premiums on a plan that is about to come into the PBGC.

Co-Chairman BROWN. So if you waive that 20-percent of the premium, can you guarantee the variable rate premium will not make the problem worse in some cases?

Mr. REEDER. We would do our best. Guarantees are tough. But the legislation needs to be drafted, and regulations would need to be made towards that end.

Co-Chairman BROWN. Okay.

Congressman Neal?

Representative NEAL. Thank you, Mr. Chairman.

Just if we could maybe use the opportunity to be better educated here on the panel about the last-man-standing rule. It is oftentimes used to describe the general insurance principle of multiemployer pension plans where risks are pooled amongst employers.

But as employers leave the plan or go insolvent, the burden remains on the employers that are left in the plan. Deregulation in the 1980s and 1990s as well as large-scale economic downturns in 2001 and 2008 led to waves of industry-wide employer insolvencies.

The remaining employers in these plans are now the last man standing in their respective multiemployer plans.

What makes the multiemployer pension plans particularly vulnerable to the last-man-standing rule?

Mr. REEDER. In my mind, it is the very essence of why multiemployer plans are subject to less rigorous funding rules, lower premiums, lower guarantee rates, because of the perception that those employers that are left in the plan can pick up the slack for employers that become insolvent or bankrupt.

It only works, though, if the population of contributing employers remains relatively the same. So if one employer goes, if one trucking company, for example, goes bankrupt, another company will take up those routes and will pay those employees and will contribute that amount to the plan.

If, however, the replacement trucking company hires nonunion workers or uses fewer workers, then there is a decrease in the number of actives, and the system falls apart.

Representative NEAL. So to follow up, under the current law then, is there anything an employer can do to counteract the problem if they cannot afford to withdraw from the plan?

Mr. REEDER. Well, I do need to note—the short answer is “no.” But I do want to note that withdrawal liability payments are made on an annual basis. It is not the big plan coming after the employer for one big chunk of money. They pay it on an annual basis, and they do not have to pay any more than generally what they have been paying.

Representative NEAL. Thank you, Mr. Chairman.

Co-Chairman BROWN. Congressman Norcross?

Representative NORCROSS. I want to follow up. That is exactly where we want to go.

So when we take a look now, Mine Workers, Central States, which are in a, I hate to say, unique position, but are in very dire straits, taking care of the PBGC as an insurance entity still only gets them \$12,870 if everything is perfect. Is that correct?

Mr. REEDER. Or less, yes.

Representative NORCROSS. Right.

Mr. REEDER. Based on their service.

Representative NORCROSS. So that is life support; we are trying to save them from dying. But what Richie spoke about and where I wanted to go is, how do we make it a wellness program where, (a) structurally things change, but then we get new infusions of employees who want to be part of the system?

And that is part of the problem: too many retirees and not enough new folks. Because who wants to sign on to an unfunded liability of several billion dollars?

The opportunity for growth in these funds is almost nil when they are in a critical or declining status. Is that correct?

Mr. REEDER. Yes.

Representative NORCROSS. So we have all the old debt, all the retirees, and nobody new.

A mechanism to allow new companies to become involved, bringing more employees in without being saddled with that—if not, they cannot grow. Would you agree with that?

So we have an emergency patient, trying to keep them alive. And we can talk about how we got there, but the fact of the matter is, you have to keep them alive. And that certainly is Central States.

But collectively, coming together, what is the most important thing that you can do to prevent a plan coming to PBGC? You talked about regulatory—you did not have the authority.

Mr. REEDER. And if it is critical and declining, the only thing that will help them is an infusion of cash.

Representative NORCROSS. Before that, we are trying to prevent—

Mr. REEDER. Right.

Representative NORCROSS. Because the Central States is already there.

Mr. REEDER. Yes.

Representative NORCROSS. We are trying to prevent piling on by others. What can you do as PBGC before they get there?

Mr. REEDER. Well, we do not have the tools right now. We do not have tools to keep them from coming. We do not have the big stick to require employers to make necessary contributions and actuaries to make reasonable assumptions. We do not have those tools.

Representative NORCROSS. So what you are telling me is, individual plans can make any type of projection they want, fund a pension plan on that basis—

Mr. REEDER. Subject to the fiduciary rule, yes.

Representative NORCROSS. Right, and then you pick up the mess.

Mr. REEDER. Right.

Representative NORCROSS. Do you think it is altogether proper and part of our responsibility that we fix the structural problems along with saving the pensions that are in critical condition now?

Mr. REEDER. I am really not—as you know, I am not empowered to talk about positions, especially of the administration. Maybe you do not know, but I am——

Representative NORCROSS. Well, is there any reason why you would want to fix this if you are——

Mr. REEDER. But I think there is a general consensus that, especially if we are going to do something about the current problem, as Co-Chairman Brown mentioned at the beginning, we are going to have to make sure that we do not have this problem again.

I do not think people are going to make the sacrifices that they are going to have to make to fix the current problem unless they can be convinced that it is not going to happen again.

Representative NORCROSS. The human factor we have heard so much about, the Mine Workers, Central States, and others. But the financial condition to our country when some of these plans start going under, the impact in all of our neighborhoods—there are companies going out of business because this vortex is going to suck everybody down, major corporations and small ones, and they are the ones that provide the jobs.

So, (a) the Butch Lewis Act has to go in whatever form it is, but we also have to be there so those in the future can have a plan so they get that golden nest egg that is eluding so many people.

I yield back.

Co-Chairman BROWN. Congressman Scott?

Representative SCOTT. Thank you.

Mr. Reeder, following up on the last-man-standing rule, as Mr. Norcross indicated, no sane person would join a plan, and so the plans cannot grow. If others would come in, you might be able to get through this. But with nobody, no new companies coming in, it is just going to get worse.

What proposals are out there that would, I guess, immunize or encourage people to come into programs that are presently underfunded?

Mr. REEDER. Well, most plans are underfunded. And I do believe that there are a lot of underfunded plans that are growing. There are green status plans that are growing. But as Congressman Norcross pointed out, a critical and declining plan is not going to grow.

The only thing that will grow the critical and declining plan is a promise to the employer that they are not going to have to be subject to the consequences of the insolvency of that plan. And that does not help the plan any, because it does not contribute towards preventing the insolvency. You are between a rock and a hard place.

Representative SCOTT. Well, if it injects money coming in—if you had more companies joining the plan, you would have more premium money and more money coming into the pension fund.

Mr. REEDER. Well, employers are making contributions to the plans. That is not a problem. The only way somebody is going to make a contribution to a plan is if they are accruing benefits commensurate with those contributions.

And so I will stick by my point that, if it is critical and declining, the only solution I see is an infusion of cash.

Representative SCOTT. According to your testimony, there was not much of a problem with the multi plans until about 2012, 2013, then all of a sudden everything went south. Were there signals that we missed in that time when we could have done something to prevent a total collapse?

The single-employer plans, according to the graph, seem to be recovering from the 2008 financial crisis, but the multi plans seem to have collapsed. Is there something we missed along the way?

Mr. REEDER. Well, the 2008 collapse happened right after the 2006 improvements in the funding rules; there were small improvements to the multi rules. But they were not commensurate to what—they were not the same as the improvements to the single-employer plan rules.

And so the single-employer plans were better equipped to weather that storm. And they came out looking better.

As far as earlier signs, I think we began to see signs right after 2000, but they did not become that apparent until the dot-com crisis and bubble and 9/11.

Representative SCOTT. Well, you had virtually zero unfunded liability through 2010, 2011. And then all of a sudden in 2014, you see a big loss, and then it just drops off the scale.

Mr. REEDER. That is right. So the signals were not bright and clear, but they were there.

Representative SCOTT. You mentioned in your testimony that some funds found themselves, because of investment returns, overfunded. And the reaction, rather than kind of bank the money, was to increase the promises, which made it more likely that they would go insolvent.

Do you have recommendations on allowing overfunding up to certain levels and prohibiting increasing promises until you can really afford them?

Mr. REEDER. Yes. The problem that Mr. Norcross referred to about the tax cap on contributions—I think it was you—that was part of the problem, and that was fixed in 2006, and I do not think it is a problem today.

If it is, we need to know about it, because there are very, very few plans that are at that level.

But I also think that the plans that weathered the storm and the effect of that problem were ones that, when they did increase benefits, they increased them with benefits that can be restricted later in bad times. And there are lots of plans that have done that. They have increased benefits, and then when hard times come, they have restricted future accruals, and they are doing fine today.

Representative NORCROSS. Can I follow up, please?

Co-Chairman BROWN. Really quickly, because I have a vote on the Senate floor. I apologize. Really quickly.

Representative NORCROSS. Let us follow up.

Are you talking about a 13th payment piece, that we are able to deal with?

Mr. REEDER. Yes. Well, that is an example.

Representative NORCROSS. Because if you included it as a cost of living, you cannot roll that back. Is that correct?

Mr. REEDER. Right. Right. Right.

Representative NORCROSS. That is a very big difference.

Mr. REEDER. There are some you cannot roll back. I am not a catalogue of which ones you can and which ones you cannot. But I am mainly talking about reducing future accruals.

Representative NORCROSS. Yes.

Mr. REEDER. You can always do that.

Representative NORCROSS. Thank you.

Thank you, Mr. Chairman.

Co-Chairman BROWN. And, Congressman Scott, you were done?

Representative SCOTT. I am done.

Co-Chairman BROWN. Okay, thank you.

Thanks to the members of the committee.

And, Director Reeder, thank you for your terrific public service. I would like to see you be there a lot longer. I guess that is my personal view, anyway.

But thanks to Ms. Markakis and to Ms. Cameron for the work that they will do with us. You know, I appreciate the administration's work on working to save the PBGC itself, even with, you know, the minimalist way that you are able to act, but the very important way. It is an important component, but only a component.

I have been very pleased with the staff work already on both sides. I think we are making major progress on this. And as we have all said all along, it has got to be bipartisan. We need five votes on each side. And I am so very hopeful we get here.

So, Director Reeder, thank you so much.

Mr. REEDER. Thank you.

[Whereupon, at 11:40 a.m., the hearing was concluded.]



## APPENDIX

### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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PREPARED STATEMENT OF HON. SHERROD BROWN, A U.S. SENATOR FROM OHIO, CO-CHAIRMAN, JOINT SELECT COMMITTEE ON SOLVENCY OF MULTIEMPLOYER PENSION PLANS

WASHINGTON, DC—U.S. Senator Sherrod Brown (D-OH)—co-chair of the Joint Select Committee on Solvency of Multiemployer Pension Plans—released the following opening statement at today’s hearing.

I call the committee to order. I would like to welcome my colleagues and everyone in attendance to the second hearing of the Joint Select Committee on Multiemployer Pension Reform.

Our job on this committee is to find a bipartisan solution to the multiemployer pension crisis threatening 1.3 million Americans and thousands of small businesses.

To do that, we also have to confront the secondary crisis threatening the Pension Benefit Guaranty Corporation, or the PBGC.

Congress created the PBGC in 1973 to serve as the insurance company for these retirement plans. Like any insurance plan, PBGC coverage doesn’t kick in until after the damage has been done—after a plan has failed, after businesses have gone under, and after jobs have been lost, PBGC is supposed to cover part of the retirement workers earned.

Ask anyone who’s ever totaled a car or dealt with flooding or fire in their homes—you’re sure glad you have insurance, but you’d much rather have avoided the disaster in the first place.

We have the opportunity to do just that: to keep those businesses open, to save those jobs, and to ensure workers get the entire retirement they earned.

Simply propping up the PBGC is not enough. We can’t take our hands off the wheel, close our eyes, and allow this car to crash, simply because we bought an insurance policy.

We can’t do that to the retirees and businesses whose plans are in crisis, and we can’t do that to the multiemployer system.

You see, as the crisis in the multiemployer plans has developed over the last few years, a second, quieter crisis has developed at the PBGC—a crisis that means allowing just one of these major plans to fail could put enough strain on the insurance system to bring down the entire PBGC multiemployer system.

According to the latest estimates, the multiemployer system at the PBGC faces a deficit of more than \$65 billion, and growing. It has just \$2 billion in assets, and is projected to become insolvent within the next 7 years.

So we can see the writing on the wall. When one of these large plans on the brink of failure requires the PBGC to step in, the PBGC will also fail—potentially leaving taxpayers on the hook for tens of billions of dollars. It’s our job to make sure that doesn’t happen.

The Federal Government helped create this crisis, and the Federal Government must help solve it.

Each plan is different, and there are many factors that contributed to bringing them down. There’s no question that Wall Street squandered some of this money.

But the government also played a role, through perverse tax incentives, insufficient premium levels, and inadequate tools and financing for the PBGC—all parts of this system that were designed and put in place by Congress.

We have a responsibility to correct each of these errors. Yes, that means addressing future actuarial assumptions within these plans, but that's not a complete solution.

To truly address this crisis, we must do two things:

1. Update and improve the PBGC going forward, so this never happens again; and
2. Solve the current crisis facing retirees and workers and businesses.

We can't do one without the other.

Updating and strengthening the PBGC alone would still lead to massive pensions cuts. It would leave small businesses drowning in withdrawal liability, and active workers paying into a pension they will never receive.

We need to make it clear to all the Americans whose lives will be upended by the failure of these plans—we won't let that happen.

At the same time, we cannot just put out the fire we're fighting today, but leave the PBGC as a box of kindling, waiting to ignite another crisis a few years down the road. We must ensure that we never get to this place again.

I am confident we can do both together, and that the information we obtain today will be an important part of that process.

This committee will continue to hold hearings—two more in June, and another two in July. At the same time, we are holding numerous staff and member level briefings and continuing to receive comments and input on our website, [www.pensions.senate.gov](http://www.pensions.senate.gov).

This will arm all of our members with the information they need, and give the people we serve the opportunity to weigh in.

In July, when the bulk of our hearings conclude, we will have to start the process of negotiating a bipartisan solution to this crisis.

I am ready and willing to consider any idea that solves the current crisis and helps prevent a future crisis, and I know Chairman Hatch shares that approach.

And with that, I yield to my co-chairman, Senator Hatch, for his opening statement.

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PREPARED STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH, CO-CHAIRMAN, JOINT SELECT COMMITTEE ON SOLVENCY OF MULTIEMPLOYER PENSION PLANS

WASHINGTON—Joint Select Committee on Solvency of Multiemployer Pension Plans Co-Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a committee hearing examining the state of the Pension Benefit Guaranty Corporation (PBGC).

This is the Joint Select Committee's second hearing to delve into issues concerning operations of the multiemployer pension system.

As I noted last time, it is critical for us to remember that the mandate of the Joint Select Committee is not just to develop reports and recommendations on the multiemployer plans, but to also review the solvency of the Pension Benefit Guaranty Corporation.

To do this, we have brought in one of the Nation's top experts on the PBGC, Tom Reeder—who happens to also be the current Director of the corporation, which insures benefits for the more than 30 million Americans in defined benefit pension plans.

To provide context, one of the core issues confronting pension policymakers is the issue of benefit security.

Pension benefit security and protection can be approached in a number of ways, including strong pension plan funding rules, robust asset management requirements, and meaningful disclosure mandates.



In the United States, we have historically used a benefit guaranty system—essentially a form of insurance—for many defined benefit pension plans to cover lost pension income if a retirement plan becomes insolvent or sponsoring employers go bankrupt.

The problem is that the U.S. system is very complicated and often difficult to effectively operate.

There are a lot of moving parts, and numerous variables for which to account.

Some of those variables include questions on how plans are insured, to what extent benefits are guaranteed, and how we can sufficiently fund the system while still ensuring employers are properly incentivized to sponsor retirement plans.

The problems don't end there though. It is clear that since its inception in 1974, the PBGC has faced design and operational issues that have made achieving its policy goals difficult.

This morning, Mr. Reeder will provide an overview of the PBGC's structure and finances, answering key questions about the organization, including how it is structured and, most important, how it is financed.

It is imperative that the Joint Select Committee develop a solid base of knowledge about the corporation and how it is funded before turning to the PBGC's current funding status.

And, in a word, that funding status is troubled. I won't recite the grim statistics because we have all read them, and we are all deeply concerned.

Over the course of the next weeks and months in the Joint Select Committee, I trust that we will learn more about the economic and demographic forces that impact the multiemployer system, and consequently the financial health of the PBGC.

But today, let's dig into the fundamentals first.

After all, it's hard to plot a course without getting a good map of the terrain.

As we work today with Mr. Reeder, here are some fundamental questions I think both sides should keep in mind.

What is the corporation's charter, and how does that effect its operations and success?

What does it mean to be a wholly owned government corporation?

What are the PBGC's core functions, and how is it structured to achieve those functions?

Does PBGC have the right tools and flexibility to intervene in the management and operation of troubled multiemployer plans?

How does the corporation manage the funds under its management?

Also, importantly, how do the insurance premiums work to fund the plan guarantees?

And, is this all the right model for the economic and demographic markets in which these plans operate?

Frankly, I believe we need to get these answers and then spend some time understanding what those answers mean before the Joint Select Committee can effectively consider any proposals to repair the multiemployer system.

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PREPARED STATEMENT OF HON. W. THOMAS REEDER, DIRECTOR,  
PENSION BENEFIT GUARANTY CORPORATION

Co-Chairman Hatch, Co-Chairman Brown, and members of the committee, thank you for the opportunity to appear before you today to discuss the Pension Benefit Guaranty Corporation (PBGC) and the challenges it faces in protecting pensions of American workers. We are grateful to the members of the committee for undertaking this important work.

PROTECTING PENSIONS

Every American worker should have the opportunity to earn a secure retirement. A vital part of retirement security for nearly 40 million private-sector workers, retirees, and beneficiaries comes from traditional defined benefit pension plans. For dec-

ades they have been an efficient vehicle for a secure retirement. Traditional defined benefit plans provide lifetime retirement income that does not depend on a participant's investment choices or the market price of annuities when the participant retires.

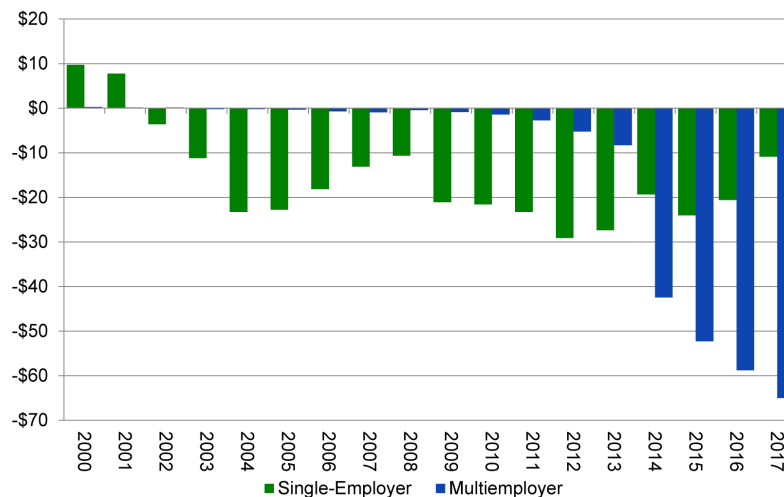
PBGC's mission is to protect the lifetime retirement income that comes from private-sector pension plans when employers are unable to make contributions to the plans sufficient to fund the promised benefits. Today, about 1.5 million current and future retirees and beneficiaries depend on PBGC for pensions they earned for years of work but may have lost without PBGC.

Congress established PBGC as part of the Employee Retirement Income Security Act of 1974 (ERISA). By law, PBGC is financed from premiums and, in the case of the Single-Employer Program, assets from failed plans. PBGC is administered by a Director. PBGC has a three-member Board of Directors consisting of the Secretary of Labor, who is Board Chair, and the Secretaries of the Treasury and Commerce.

PBGC operates two separate insurance programs: one for single-employer plans (the Single-Employer Program) and one for multiemployer plans (collectively bargained plans with more than one employer) (the Multiemployer Program). While each program is designed to protect participants' pension benefits when plans fail, they differ significantly in the level of benefits guaranteed, how the guarantee is provided, the event that triggers payment of the guarantee, and premiums paid by insured plans. By law, the two programs are financially separate. Assets of one program may not be used to pay obligations of the other.

Both programs have been in a deficit position for 15 years or longer, meaning that, for each of our two insurance programs, assets are less than liabilities. While the financial condition of the Single-Employer Program has been improving, the Multiemployer Program's financial condition has been deteriorating rapidly and without action the changes required to remedy the deficit become more difficult (*see* Figure 1).

**Figure 1**  
**PBGC Single-Employer and Multiemployer Insurance Programs**  
**Net Positions FY 2000-2017**  
**(\$ in billions)**



As of September 30, 2017, the Single-Employer Program had liabilities of \$117.1 billion and assets of \$106.2 billion, resulting in a \$10.9-billion deficit, down from a

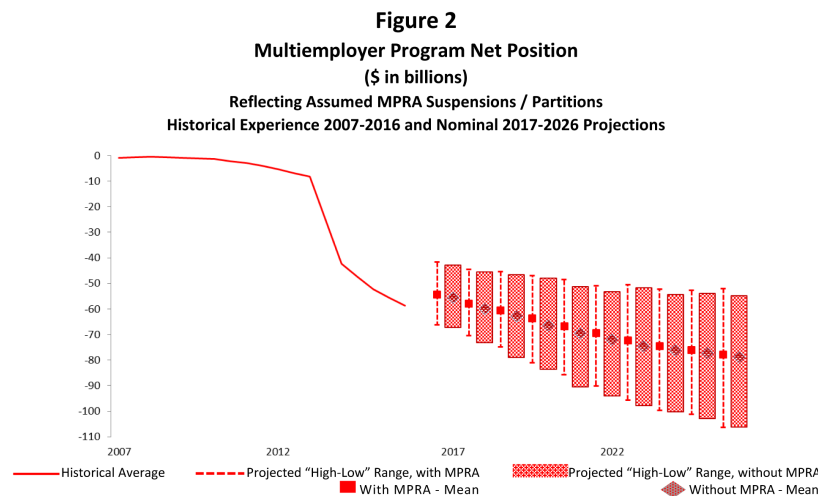
\$20.6-billion deficit at the end of FY 2016. Continued improvement in the Single-Employer Program is projected but not a certainty.<sup>1</sup>

In sharp contrast, the Multiemployer Program had liabilities of \$67.3 billion and assets of only \$2.3 billion, resulting in a deficit of about \$65 billion. The Multiemployer Program is projected to fail in just a few years, and without action, the changes required to remedy the deficit become increasingly difficult.

#### MULTIEMPLOYER PROGRAM

PBGC's Multiemployer Program provides financial assistance to multiemployer plans that have run out of money so that they can pay benefits at PBGC guaranteed levels.<sup>2</sup> The program is funded by premiums paid by the plans. Our financial assistance is technically a loan to the insolvent plan. But because the plans have already run out of money, repayment of financial assistance loans is highly unlikely. To date, only one loan has been repaid, and that loan was made in the circumstance of a plan having a temporary financial need rather than a permanent need.

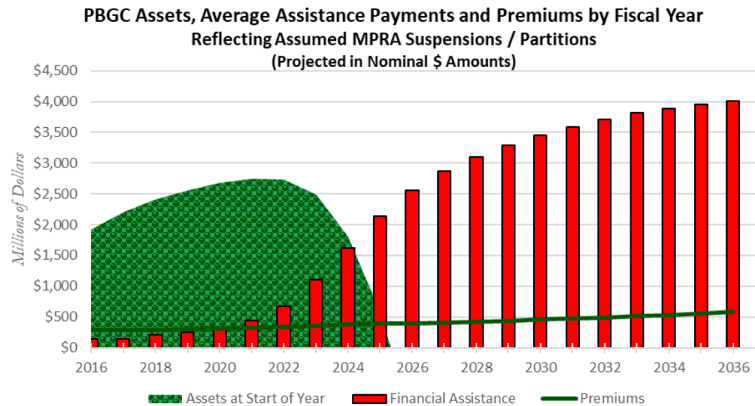
PBGC's FY 2016 Projections Report shows a projected FY 2026 year-end mean deficit of about \$78 billion (in nominal dollars) in the Multiemployer Program, even assuming that some plans use benefit suspensions and partitions as allowed under the Multiemployer Pension Reform Act of 2014 (MPRA) to avoid insolvency (*see* Figure 2 below).



The assets and income of PBGC's Multiemployer Program are only a small fraction of the amounts PBGC will need to support the guaranteed benefits of participants in plans expected to become insolvent during the next decade. Projections show that the Program is more likely than not to become insolvent by the end of FY 2025, absent changes in law (*see* Figure 3 below).

<sup>1</sup> PBGC uses stochastic modeling that produces a probability distribution of potential outcomes for the future financial condition of PBGC's two insurance programs. The FY 2016 Projections Report continues to show a wide range of potential outcomes.

<sup>2</sup> Financial assistance also covers reasonable administrative expenses.

**Figure 3**

As insolvency of the insurance program grows closer, the changes required to prevent insolvency become more disruptive.

#### MULTIEMPLOYER PLANS

A multiemployer plan is a pension plan maintained through a collective bargaining agreement between employers and a union. The employers are usually in the same or related industries. Multiemployer plans provide benefits for people in industries such as transportation, construction, mining, and hospitality.

Multiemployer plans have provided retirement benefits to millions of American workers for more than half a century. Today, America's 1,400 multiemployer plans provide retirement security to more than 10 million participants and their families.

There are multiemployer plans and participants in every State. Multiemployer plans range in size from small local plans with a hundred or fewer participants to large national plans covering hundreds of thousands of participants. Businesses of all sizes, including hundreds of thousands of small businesses—doing business in every State—participate in multiemployer plans.

Multiemployer plans provide pension portability, allowing workers to accumulate benefits earned for service with different employers throughout their careers. They pool longevity risk, which provides much lower-cost annuities than those available in the individual market, and they spread the risk of any individual employer's failure across many firms.

#### *Benefits to Employers*

Among the advantages of this type of plan is that assets are pooled among employers in a single consolidated trust. Efficiencies of scale broaden and diversify investment opportunities and lessen the administrative and investment costs of operating a separate single-employer plan. Investment professionals manage the plans' assets, helping to reduce risks for contributing employers, employees, and retirees.

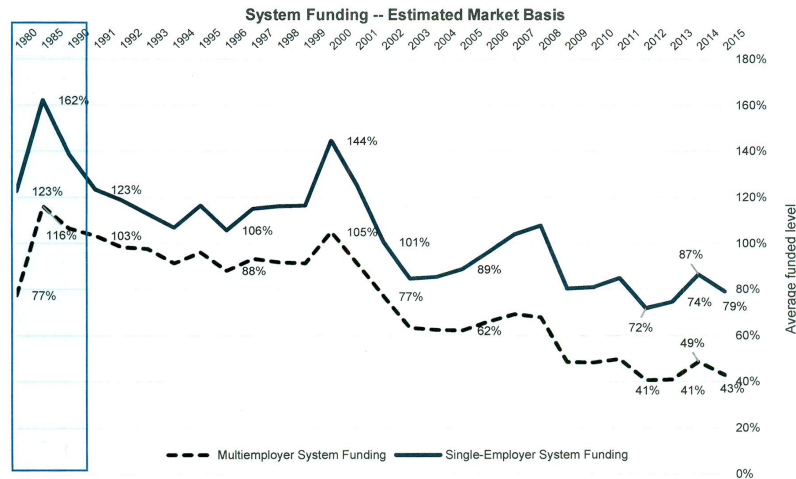
#### *Importance to Small Businesses*

Multiemployer plans enable employers to provide retirement benefits to their employees without imposing administrative burdens on any individual employer. Employers generally need only to remit contributions set by collective bargaining and are relieved from the responsibilities of operating a plan, which are handled by an independent joint board of trustees, consisting of equal representatives from labor and management. Consequently, these plans have historically offered employers, especially small businesses, an affordable way to provide pensions to their employees, without the administrative burdens.

## FUNDED STATUS OF MULTIEMPLOYER PLANS

Multiemployer plans overall are less well funded than single-employer plans. The disparity between the funded status of single-employer plans and multiemployer plans has existed for many years (see Figure 4).

Figure 4

*Plan Zone Status*

The Pension Protection Act of 2006 categorized multiemployer plans based on funded status, compliance with minimum funding standards, and time until likely insolvency: Endangered Status, (commonly referred to as “Yellow Zone”), Seriously Endangered Status (“Orange Zone”), and Critical Status (“Red Zone”). The Multiemployer Pension Reform Act of 2014 (MPRA) created a subcategory of Red Zone plans—Critical and Declining; these plans project that they will run out of money within 15 to 20 years. Plans that do not fall within these categories are categorized as Not in Distress (“Green Zone”). Table 1 summarizes the criteria for each zone status.

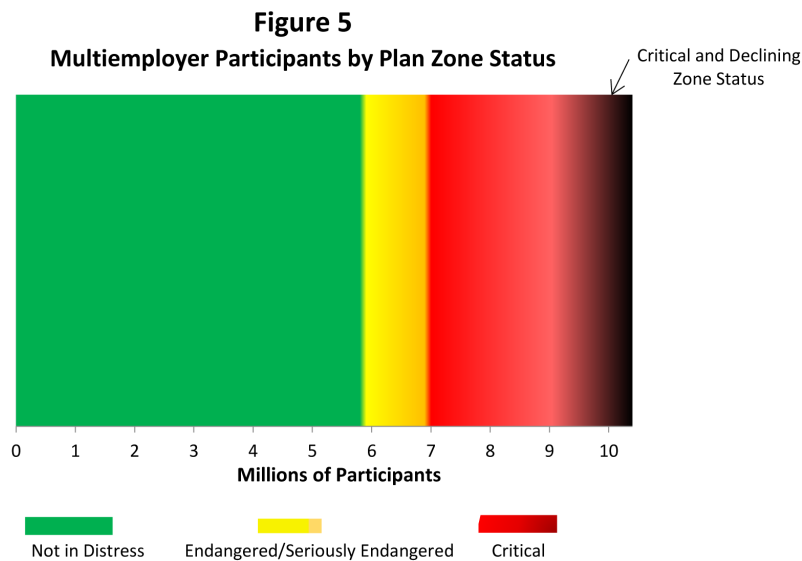
Table 1  
Summary of Plan Zone Status Criteria

Not in Distress (Green Zone)	– Not Yellow, Orange, or Red Zone
Endangered (Yellow Zone)	– Plan is less than 80-percent funded or a funding deficiency is projected within 7 years.
Seriously Endangered (Orange Zone)	– Plan is less than 80-percent funded and a funding deficiency is projected within 7 years.
Critical (Red Zone)	– Various alternative criteria indicating severe funding or liquidity issues—generally less than 65-percent funded ratio, insolvency projected within 5–7 years, or a funding deficiency is projected within 4–10 years.

Table 1—Continued  
Summary of Plan Zone Status Criteria

Critical and Declining (Red Zone subset)	– Plan is projected to become insolvent within 15 years (20 years if the plan is less than 80-percent funded or there is less than one active for each inactive participant).
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The majority of multiemployer plan participants are in Green Zone plans. A significant minority of multiemployer plans—about 130 plans, some very large—covering 1.3 million participants, are in Critical and Declining Status (*see* Figure 5). The underfunding in Critical and Declining plans totals about \$100 billion on a market basis.



#### *Causes of Multiemployer Plan Underfunding*

Lower funding levels in multiemployer plans in part reflect the less stringent funding rules that have always applied to multiemployer plans. For many years, multiemployer plans were widely considered to be inherently more financially stable than single-employer plans because they rely on contributions from many employers, unlike single-employer plans that generally rely on one employer. If an employer failed, others were there to make contributions to fund the promised benefits. Perhaps because risks were pooled in this way, the law allowed plans to take more time to pay down underfunding created by benefit improvements or adverse experience, such as investment returns that were lower than anticipated or industry declines.

Many other factors—financial, economic, and demographic—also have contributed to underfunding in multiemployer plans and the financial distress of some multiemployer plans.

Before the decade of the 2000s, defined benefit plans, including multiemployer plans, earned historically high rates of return, which kept plans well-funded without large employer contributions. High investment returns financed benefit improvements, such as increased benefit accrual rates, past service credit, new or increased

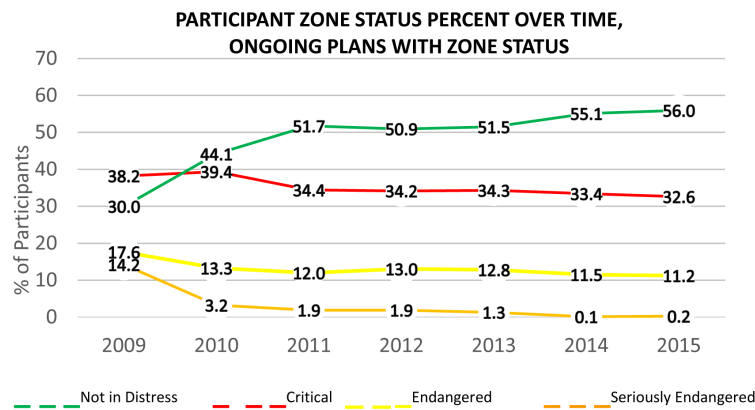
early retirement subsidies, and disability pensions.<sup>3</sup> These new obligations elevated plan liabilities in the late 1990s in a way that was difficult to reduce later.

The significant market losses in the early 2000s and especially in the 2008 market crisis and Great Recession took a huge toll. Average funded ratios (market value of assets divided by liabilities discounted using a standardized PBGC interest factor that reflects group annuity prices) exceeded 90 percent in the 1990s, then dropped to the mid-60-percent range in the mid-2000s and fell below 50 percent after the 2008 market crisis.

Even before the 2008 market crisis, Congress recognized the seriousness of multi-employer plan underfunding and enacted the Pension Protection Act of 2006 (PPA). Under PPA, plans classified as Critical Status (Red Zone) generally must establish a Rehabilitation Plan detailing how they intend to emerge from Critical Status (generally within 10–13 years), through actions such as increasing contributions and reducing or eliminating future accruals or adjustable benefits. If they are not projected to emerge from Critical Status during the rehabilitation period after exhausting all reasonable measures, they must develop an alternative scenario that allows them to emerge at a later time or to otherwise forestall possible insolvency.

A significant number of plans were not able to recover, including some very large plans covering thousands of participants and in a few cases hundreds of thousands. As the financial markets and the economy improved, many plans became better funded, and the percentage of participants in plans that were Not in Distress (Green Zone plans) increased markedly. But the percentage of participants in Critical Status plans declined only slightly, reflecting the stagnant or shrinking contribution base and high percentages of retirees that characterize struggling plans (*see* Figure 6). About one-third of the participants in Critical Status plans are in Critical and Declining Status plans.

Figure 6



Factors such as declines in unionized employment, competitive pressures from non-unionized businesses, and declines in demand for products or services, caused some companies to go out of business. They left behind the unfunded benefits of their inactive and retired workers (sometimes referred to as orphan liabilities).

Today, the ratio of active to inactive participants is at its lowest point ever. Among multiemployer plans in the aggregate, fewer than 4 out of every 10 covered

<sup>3</sup> Because of maximum deductible limits, some plans increased benefits during this period to avoid losing deductible treatment of employer contributions for Federal income tax purposes, which also contributed to longer-term cost. These limits were raised in the Pension Protection Act of 2006.

participants are actively employed by a participating employer.<sup>4</sup> In addition, contributions by downsized companies that remained in business declined.

As underfunding in these plans deepens, remaining employers are faced with a difficult choice: higher contributions if they stay; higher payments for their allocated share of plan underfunding withdrawal liability if they leave (withdrawal liability). And if they do leave, the plan will be at greater risk of failure.

#### *Contagion*

Some have asked whether the failure of a multiemployer plan could cause failure of other multiemployer plans in which the affected employers also participate (“contagion”). This situation would most likely occur as a consequence of the insolvency of a very large plan. We have not yet experienced the failure of a very large plan, so it is too early to test the contagion theory, but it seems plausible. Some also have asked whether failure of an employer that contributes to more than one multiemployer plan could lead to failure of multiple plans (another type of contagion). This would most likely occur as a consequence of the failure of a company that is a dominant employer in multiple plans. Here also the theory seems plausible. We are aware of at least one instance where bankruptcy of a major contributor to multiple plans put financial stresses on those plans.

#### *Severity of the Problem*

PBGC’s Financial Statements<sup>5</sup> reflect the serious underfunding in multiemployer plans that are in financial distress. Our Projections Report<sup>6</sup> shows how this underfunding is likely to result in a growing deficit and, more important, the inability of the Multiemployer Program to provide the financial assistance to cover guaranteed benefits.

In FY 2017, PBGC paid \$141 million in financial assistance to 72 insolvent multiemployer pension plans, covering the benefits of over 63,000 retirees with another 30,000 people entitled to benefits once they retire. In the coming years, the demand for financial assistance from PBGC will increase as more and larger multiemployer plans run out of money and need help to provide benefits at the guarantee level set by law.

As of September 30, 2017, the Multiemployer Program had assets of \$2.3 billion to cover \$67.3 billion in liabilities in 187 plans. The liabilities<sup>7</sup> consist of:

- \$2.7 billion for the 72 plans currently receiving financial assistance (about 93,000 participants).
- \$2.0 billion for 68 plans that have terminated but have not yet started receiving financial assistance payments from PBGC (about 78,000 participants). Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers.
- \$62.7 billion for 47 plans that are ongoing (*i.e.*, have not terminated), but PBGC expects they will exhaust plan assets and need financial assistance within 10 years (about 1,160,000 participants).<sup>8</sup>

The last two categories—terminated plans and ongoing plans expected to need financial assistance within 10 years—are classified as “probable” obligations of the Multiemployer Program.

The \$67.3 billion in Multiemployer Program liability is an increase from \$61.0 billion in FY 2016. In addition to the \$67.3 billion booked as a liability in our financial statements, there is \$14 billion in underfunding in ongoing multiemployer plans projected to become insolvent in the next 10 to 20 years; these plans, which are not booked as liabilities, are classified as “reasonably possible” future obligations.

<sup>4</sup> Active participants account for about 35 percent, separated vested participants about 35 percent, and retired participants about 30 percent.

<sup>5</sup> PBGC 2017 Annual Report: <https://www.pbgc.gov/sites/default/files/pbgc-annual-report-2017.pdf>.

<sup>6</sup> PBGC FY 2016 Projections Report: <https://www.pbgc.gov/sites/default/files/fy-2016-projections-report-final-signed.pdf>.

<sup>7</sup> The liabilities add to \$65.4 billion rather than \$67.3 billion due to rounding.

<sup>8</sup> The liability for ongoing plans includes a small probable bulk reserve of \$1.1 billion.



As noted earlier, our most recent projections show that, absent a change in law, the mean 2026 deficit is about \$78 billion (in nominal dollars), and Multiemployer Program assets are likely to be exhausted in 2025.<sup>9</sup>

#### HELPING PLANS AVOID INSOLVENCY: PREVIOUS LEGISLATIVE EFFORTS

Congress enacted two pieces of legislation to address underfunding in multiemployer plans: the Pension Protection Act of 2006 (PPA), discussed earlier, and more recently, the Multiemployer Pension Reform Act of 2014 (MPRA).

MPRA defined a subcategory of Critical Status plans that are “Critical and Declining.” These are Critical Status plans whose actuaries project that plan insolvency will occur within the current plan year or any of the 14 succeeding plan years (or in certain situations, within 19 succeeding plan years).

MPRA gives the trustees of Critical and Declining plans additional options to address the risk of insolvency. Under MPRA, Critical and Declining plans may take steps to improve long-term solvency by reducing benefit promises to participants and beneficiaries if they meet certain requirements, including application to and approval by the Department of the Treasury.<sup>10</sup> MPRA permits participants’ benefits to be reduced to 110 percent of the PBGC guaranteed amount, subject to statutory protections that prohibit or limit reductions for participants who are disabled or elderly. These statutory protections from MPRA benefit cuts for the disabled and elderly do not extend to insolvent plans that receive financial assistance from PBGC.

MPRA also changes PBGC’s ability to provide early financial assistance to plans, either by assuming part of the plan’s liabilities via a plan partition or by providing assistance to facilitate a merger. To receive partition assistance, the plan must take all reasonable measures to avoid insolvency including the maximum benefit reductions allowed by MPRA (*i.e.*, reduction to 110 percent of the PBGC guarantee, with the MPRA protections for the disabled and elderly), if applicable.

Mergers can stabilize or increase the base of contributing employers, combine plans’ assets for more efficient investing, and reduce plans’ administrative costs. Under MPRA, PBGC is authorized to help plans merge with other multiemployer plans. Plans may request technical assistance, and Critical and Declining plans may also apply for financial assistance to facilitate a merger, if necessary to avoid plan insolvency. Importantly, a partition, or any facilitated merger, must reduce PBGC’s expected long-term loss and cannot impair its ability to provide financial assistance to meet existing obligations to other plans.

To date, 19 troubled plans have applied for benefit reductions, with five also seeking financial assistance from PBGC in the form of a partition to remain solvent. One joint application for a suspension and partition, and three applications to reduce benefits (without partition), have received all the required approvals and authorizations to proceed. One suspension-only application has been approved, with authorization to implement the suspension dependent on a participant vote. Two joint suspension-partition applications and four suspension-only applications are under review.

MPRA can help some Critical and Declining plans but cannot help all of them. In some cases, underfunding is so large relative to future cash inflows that benefit suspensions and partition cannot keep the plan solvent long-term.

The United Furniture Workers Pension Plan A is an example of a plan that is helped by MPRA. The Road Carriers Local 707 Pension Fund is an example of a plan for which MPRA could not work because of the plan’s severe underfunding and inadequate projected cash inflows. Outcomes for both plans are described below.

#### *United Furniture Workers Pension Plan A*

The United Furniture Workers Pension Plan A (“UFW Fund”), based in Nashville, TN, is using MPRA to avoid plan insolvency. In August 2017, PBGC approved the partition of the plan in conjunction with approval by Treasury of benefit suspension under MPRA. This was the first MPRA partition approved by PBGC. With this early financial assistance from PBGC, along with required benefit reductions, the UFW Fund is projected to avoid insolvency and pay benefits above the guarantee level to nearly 10,000 participants and beneficiaries over the long term. Under the law, ben-

<sup>9</sup> PBGC FY 2016 Projections Report: <https://www.pbgc.gov/sites/default/files/fy-2016-projections-report-final-signed.pdf>.

<sup>10</sup> Prior to MPRA, reduction of benefits already accrued was generally prohibited by the “anti-cutback rule.”

efits of approximately 7,100 participants and beneficiaries were not reduced, because MPRA includes statutory limitations that protect against cuts for certain participants and beneficiaries based on age, disability status (as defined by the plan), and whether benefits are not more than 10 percent greater than PBGC guarantees would provide. The remaining approximately 2,800 participants will see future benefit reductions to 110 percent of the PBGC guaranteed amount, averaging a 12.7 percent cut in benefits.

#### *Road Carriers Local 707 Pension Fund*

The Road Carriers Local 707 Pension Fund (“707 Fund”), which is based in Hempstead, NY and covers nearly 5,000 participants, was unable to use MPRA to avoid insolvency. The 707 Fund applied for a MPRA benefit suspension and a PBGC partition in order to preserve benefit payments above PBGC guarantee levels. But projected future contributions and other income were insufficient to avoid insolvency, even with the maximum benefit reductions allowed under MPRA and a PBGC partition.

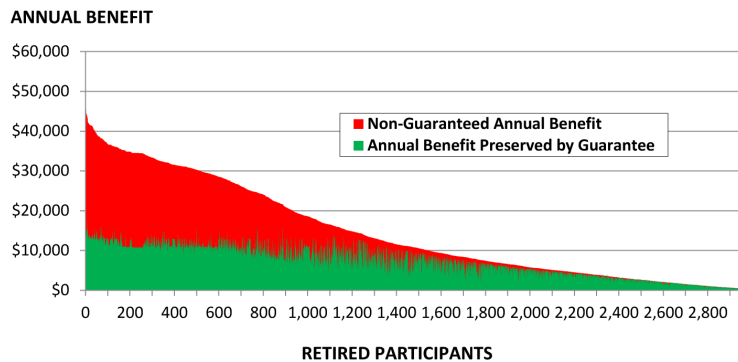
As a result, the 707 Fund became insolvent early in 2017, and PBGC began providing financial assistance to the plan to cover benefits at PBGC guaranteed levels.<sup>11</sup> For nearly one-half of all 5,000 participants in the plan, the guarantee covers less than 50 percent of the benefits earned.

The red area in Figure 7 below shows the benefit losses for the 707 Fund’s 3,000 retired participants as a result of the plan insolvency (approximately one-third experienced benefit cuts of over 50 percent). The green area shows what PBGC will pay as long as we have sufficient assets to pay the current guarantee.

The benefit losses will result in hardship for many of the plan’s participants and beneficiaries. There also will be economic effects that go beyond these individuals and their families. They will have less money to spend in the local economy and they will pay less in Federal and State income taxes. In some cases, they will need to rely on social programs to provide basic needs that they previously had paid for with their earned pension benefits.

**Figure 7**

#### **CUT BACKS to MULTIEMPLOYER GUARANTEE LIMIT at PLAN INSOLVENCY Road Carriers Local 707 Pension Fund**



<sup>11</sup> News release: “PBGC Provides Financial Assistance to Road Carriers Local 707 Pension Fund—Participants’ Benefits Payments Cut to PBGC Guaranteed Levels,” <https://www.pbgc.gov/news/press/releases/pr17-02>.

Where MPRA is a viable option, the degree to which plans will attempt to extend solvency through requests for benefit reductions and early financial assistance remains unknown.

#### *Outlook for PBGC Multiemployer Program*

In modeling projected insolvency dates and deficits for the Multiemployer Program, PBGC looked at scenarios where some plans use MPRA benefit suspensions or early financial assistance and where no plans used such MPRA tools. The mean year for Multiemployer Program insolvency was FY 2025 in both scenarios. The mean FY 2026 deficit in nominal dollars differed only slightly by scenario—\$77.8 billion with MPRA and \$78.8 billion without use of MPRA.

#### CONSEQUENCES OF MULTIEMPLOYER PROGRAM INSOLVENCY

Insolvency of the Multiemployer Program will dramatically reduce the already relatively low guarantee for multiemployer plan participants. Under current law, when Multiemployer Program assets are exhausted, the only money available to provide financial assistance for benefit payments will be incoming multiemployer premiums. Multiemployer premium income in FY 2017 was under \$300 million, and the annual premium rate, \$28 per participant for 2017 and 2018 plan years, will increase only by indexing.

The Multiemployer Program will soon be spending more in financial assistance than it receives in premium income. Funds in the Multiemployer Program will represent only a small fraction of the amount required for current guarantee levels. Under the program's authorizing legislation,<sup>12</sup> PBGC would submit to Congress, in advance of Multiemployer Program insolvency, a schedule of reduced basic-benefit guarantees which would be necessary in the absence of a premium increase. Such reduced guarantees would result in participants in failed multiemployer plans, receiving a very small fraction—an eighth or less, on average—of the current guarantee level, no matter when their plan became insolvent.

Even if the Multiemployer Program were adequately funded, a remaining challenge to benefit security is the guarantee for multiemployer plans. Multiemployer guarantees are much lower than single-employer guarantees. The multiemployer guarantee has not increased since 2001 and is not indexed for inflation. For example, the maximum guaranteed benefit for a retiree with 30 years of service is \$12,870 annually. In contrast the maximum guaranteed benefit for a retiree in a single-employer plan is \$65,045 annually. The Single-Employer guarantee is indexed for inflation. The single-employer guarantee typically protects full benefits of approximately 85 percent of participants in terminated plans. While the multiemployer guarantee has provided similar protection in the past, lack of indexing has eroded severely the value of the guarantee.

#### NEED FOR LEGISLATION

We work with troubled multiemployer plans and their sponsors who come to us seeking to prevent plan insolvency. We provide advice and assist them in whatever way we can. But the tools PBGC has to address the multiemployer crisis are very limited. We have been working with stakeholders and policy makers to find new ideas for shoring up the program.

Legislation is needed to address the looming insolvency of PBGC's Multiemployer Program and again make the PBGC guarantee something American workers and retirees, and their families, can count on. A number of proposals have been put forward. Some are designed to help plans avoid insolvency and thus help PBGC indirectly. Others are designed to help PBGC avoid insolvency.

The President's FY 2019 budget includes a proposal to shore up the PBGC's Multiemployer Program. The budget proposes adding a variable-rate premium on unfunded benefits, similar to the Single-Employer Program, with provision for waiver to avoid accelerating insolvency in the most troubled plans. The proposal also includes an exit premium on companies that withdraw from multiemployer plans. The proposal is estimated to raise an additional \$16 billion over the 10-year budget window and is expected to be sufficient to fund the Multiemployer program for the next 20 years. However, additional actions may be necessary to address all the problems facing the broader multiemployer plan system.

<sup>12</sup> ERISA section 4022A(f)(2).

## CONCLUSION

While the Single-Employer Program is improving, the Multiemployer Program is headed toward insolvency—more likely than not by the end of 2025.

If the PBGC Multiemployer Program is allowed to become insolvent, the only money available to provide guaranteed benefits will be incoming premiums. Only a small fraction of the current, very modest guarantee will then be funded. The result will be catastrophic for many people—current and former workers, retirees, beneficiaries, and their families. These losses have consequences beyond the immediate parties, increasing demands on social programs. Employers are also concerned and are pushing for action to prevent further damage in the system.

As more time passes, it is increasingly difficult to craft a solution that can be viewed as fair, or that is even viable.

I appreciate the leadership of the members of this committee in addressing the challenges faced by multiemployer plans and the PBGC Multiemployer Program. I look forward to continuing to work with you to ensure that PBGC's guarantee is one that workers and retirees can count on in the future.

I am happy to answer any questions.

