Written Testimony for the

United States Senate and United States House of Representatives
Joint Select Committee on Solvency of Multiemployer Pension Plans

Hearing on Employer Perspectives on Multiemployer Pension Plans
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Good afternoon Chairman Hatch, Co-Chairman Brown and Members of the Joint Select Committee on Solvency of Multiemployer Pension Plans.

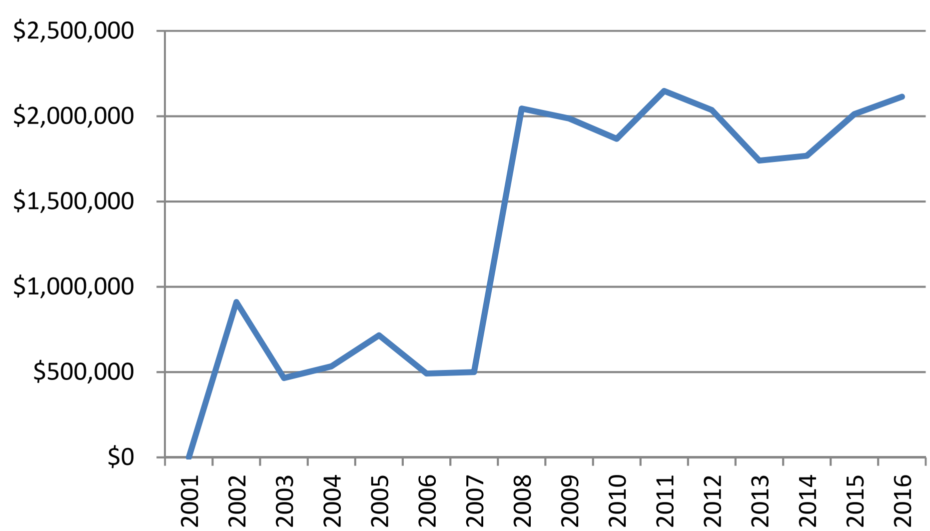
Thank you for the opportunity to speak with you today about a topic that has significantly impacted my business. I am the president of Egger Steel Company, a third-generation family owned business located in Sioux Falls, South Dakota. We are a structural steel fabricator that services markets in the Upper Midwest. We purchase raw material from steel mills and transform it into assemblies that are shipped to job sites to become the structural framework for bridges and buildings.

We currently have 51 employees, 34 of whom are hourly shop workers who belong to the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers. On their behalf, we contribute to the Boilermaker-Blacksmith National Pension Trust. We have been contributing to this pension since 1971.

Historical Pension Performance

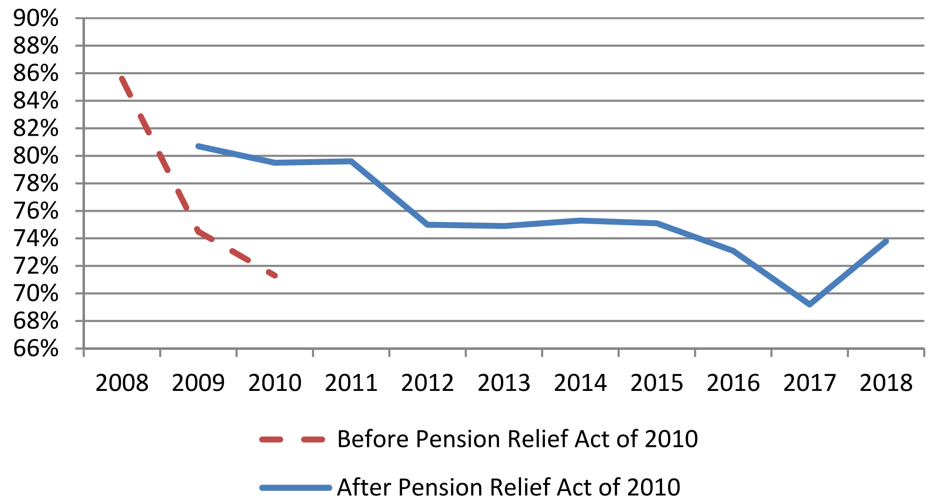
We first became aware that the Boilermaker-Blacksmith pension had an unfunded liability when we were notified that our company's 2002 withdrawal liability was over $900,000. Prior to that notification, we had never heard the term "withdrawal liability," much less understood that it could apply to us. Since 2002, our withdrawal liability has fluctuated due to variations in overall contributions to the pension, investment returns and actuarial assumptions, but the overall trend of our withdrawal liability has been upward and the largest increase in a single year was over 300% coinciding with the stock market crash of 2008-2009 (see Figure 1 below). The stock market has since recovered, but our withdrawal liability has not returned to pre-crash levels. Our most recent valuation indicates a withdrawal liability of approximately $2.1 million, or over $60,000 per active eligible employee.

Figure 1: Egger Steel Withdrawal Liability[1]



The pension trustees have made multiple changes since 2002 to reduce the plan's unfunded liability, implementing a Funding Improvement Plan, a Rehabilitation Plan and various Amendments. They have imposed increased contribution rates, reduced benefit accrual rates and eliminated some future benefits for active employees. They have not cut retiree benefits. Our company's total contribution is now 2.4 times higher than the rate we negotiated with our bargaining unit. Despite these changes, the plan's funding status has continued to decline (see Figure 2 below).

Figure 2: Boilermaker-Blacksmith Pension Funding[2]

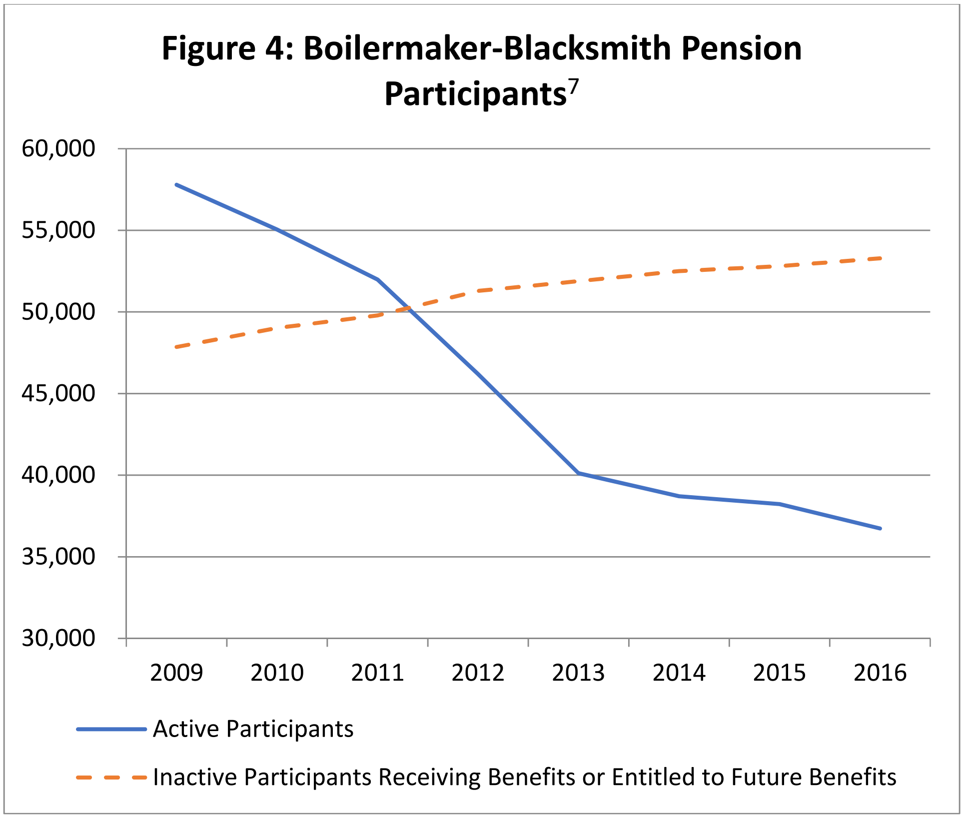


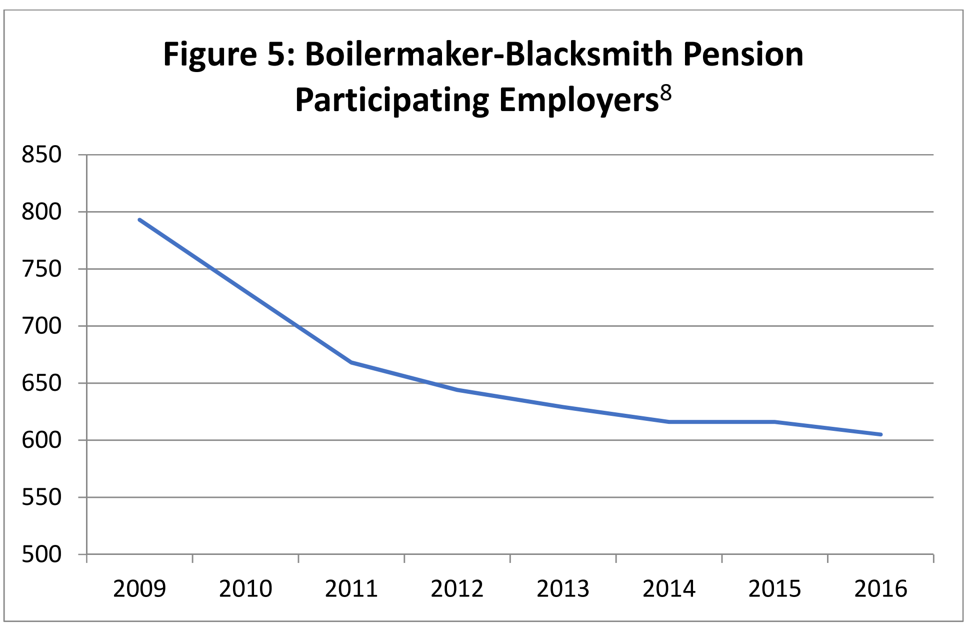
There is an uptick in the funding status for 2018, but I don't take much comfort from that because I don't believe that the pension's accounting reflects its true liability. The Boilermaker-Blacksmith pension makes two actuarial assumptions that I question. First, it projects an actuarial rate of return on its investments of 7.5% net of investment expenses.[3] During the latest bull market, its actuarial returns have averaged only 6.0% (see Figure 3 below), so in my opinion the pension should be assuming an actuarial rate of return lower than 6.0% in order to account for the inevitable losses during a bear market.

Figure 3: Boilermaker-Blacksmith Pension Estimated Investment Return on Actuarial Value of Assets[4]

2010	7.5%
2011	8.0%
2012	3.1%
2013	6.3%
2014	7.8%
2015	5.7%
2016	3.5%
Average Annual Return	6.0%
Compound Annual Growth Rate	6.0%

Second, the pension assumes that hours worked by active participants will continue at current levels.[5] This assumption ignores the historical trend of declining numbers of active participants and declining numbers of employers who are contributing to the plan (see Figures 4 and 5 below). Moreover, the pension recently disclosed that hours worked in 2017 were estimated to be four million hours lower than projected.[6]





Impact on Egger Steel Company

What impact does this have on my company? The short-term impact of the multiemployer pension crisis is that it increases my shop labor costs. In order to attract and retain employees, I have to offer competitive take-home wages. Younger employees are cynical about the value of their pension benefits, so they will leave my company for a non-union competitor if their paychecks aren't equivalent to what they could receive somewhere else. The problem is that while my non-union competitors are offering between 3% and 6% 401(k) contributions, the equivalent rate for my company's total pension contribution is 14%. My shop labor costs are therefore 8% to 11% higher than my non-union competitors because of the underfunded pension. Every time the pension imposes higher contribution rates to make up for its funding shortfall, my costs rise, it becomes more difficult for me to compete in the marketplace and I grow more concerned about whether or not my company will be able to survive the next recession.

The long-term impact of this crisis is related to my company's withdrawal liability. Because I don't intend to withdraw from the pension, it is considered a contingent liability for now, and it is disclosed in the notes to my financial statements rather than appearing on the balance sheet. Nevertheless, my bank is aware of this liability – which is why I can speak about it publicly today – and I make management decisions as if this liability does appear on my balance sheet. While my competitors are purchasing expensive new technology to improve their productivity, I am limited to fixing or replacing broken equipment because at any time my withdrawal liability could skyrocket like it did in 2008, the pension could impose steep increases in contribution rates or if too many employers withdraw from the pension it could fold and assess withdrawal liabilities on whichever participating employers are left to absorb its losses. I don't know how likely any of these scenarios is, but if this crisis is not addressed I am assuming that at least one of them will occur during my tenure as president.

While it is true that if a withdrawal liability were to be assessed I could pay the liability at the same annual rate that I had been making contributions, in reality I would incur the additional cost of contributing to a new 401(k) account for those employees who would no longer be earning a pension benefit and would otherwise leave my company for a competitor that does offer retirement benefits. Instead of my labor costs being 8% to 11% higher than my competitors, they would now be 13% to 16% higher.

Recommendations

The multiemployer pension crisis is serious and it is getting worse every day because the pension plans are still making new defined benefit commitments without collecting enough contributions to cover their true costs. Before we do anything else, we must recalculate the true extent of the problem using realistic actuarial assumptions. I'm not suggesting that all multiemployer pension plans should immediately recast their projections. Doing so risks a cascading failure in which weaker companies will fold under the pressure of higher contributions or higher withdrawal liabilities and will dump their obligations onto a shrinking number of survivors. This Committee, however, should independently determine the realistic funding status of these plans to ensure that any solutions offered do more than just kick the can down the road for a future Congress to address.

My second recommendation is to transition "orphaned" beneficiaries to the Pension Benefit Guaranty Corporation (PBGC). The "last man standing" provision of multiemployer pension legislation was a mistake and correcting it would eliminate the risk of cascading failure. The PBGC would require additional funding to support these orphans which could come from higher premiums or from transferring proportional assets from the orphans' former pension funds to the PBGC. In either case, the PBGC should consider the funding status of the affected pension plans and vary the premiums or funds collected to avoid harming significantly underfunded plans.

My third and final recommendation is to stop making new defined benefit commitments. In my company's example, instead of paying 14% of wages to the pension, I would propose to redirect 5% to a defined contribution plan for all new hours worked and continue contributing the remaining 9% to the pension until its unfunded liabilities are paid off. The pension may require federal loans to satisfy its short term cashflow needs, but if it stops making new commitments while continuing to collect contributions it will eventually be able to pay back its loans. If it would take the pension fifty years under this scenario to pay off its liability then perhaps we need to consider current retiree benefit cuts or direct taxpayer assistance, but before we do either of those things we need to admit that the era of defined benefit retirement plans is over.

Thank you for giving me the opportunity to testify.

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[1] Boilermaker-Blacksmith National Pension Trust, "Withdrawal Liability Estimate" letters to Egger Steel Company, (2003-2017).

[2] Boilermaker-Blacksmith National Pension Trust, "Annual Funding Notice for Boilermaker-Blacksmith National Pension Trust" (2010-2018).

[3] Segal Consulting, "Actuarial Status Certification as of January 1, 2016 Under IRC Section 432" (Boilermaker-Blacksmith National Pension Trust Form 5500, 2016), 9.

[4] Boilermaker-Blacksmith National Pension Trust, "Form 5500, Schedule MB" (2010-2016), 3.

[5] Segal Consulting, 9.

[6] Boilermaker-Blacksmith National Pension Trust, "Important Notice Regarding Amendment 5 to the 13th Restatement of the Pension Plan" (December 2017).

[7] Boilermaker-Blacksmith National Pension Trust, "Form 5500" (2009-2016), 2.

[8] Ibid. Note that the 2010 Form 5500 indicates that 1,170 employers were obligated to contribute. This data point appears to be an error and was omitted from the chart.