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ON BEHALF OF
THE NATIONAL COORDINATING COMMITTEE FOR MULTIEMPLOYER PLANS
(NCCMP)**

**TESTIMONY TO
THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON EDUCATION AND LABOR
SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR AND PENSIONS**

**HEARING ON
THE COST OF INACTION: WHY CONGRESS MUST ADDRESS THE
MULTIEMPLOYER PENSION CRISIS**

MARCH 7, 2019

Chairwoman Wilson, Ranking Member Walberg and Members of the Committee, my name is Mariah Becker. I am the Director of Research and Education for the National Coordinating Committee for Multiemployer Plans (NCCMP). I am also an Enrolled Actuary, and a member of the American Academy of Actuaries Multiemployer Plans Committee.

The NCCMP is a non-partisan, nonprofit, tax-exempt social welfare organization created in 1974 with members, plans and contributing employers in every major segment of the multiemployer universe. The NCCMP is the only national organization devoted exclusively to representing the interests of multiemployer plans, organized labor and the job creating employers of America who jointly sponsor them, and the more than 20 million active and retired American workers and their families who rely on multiemployer retirement and welfare plans. The NCCMP's purpose is to assure an environment in which multiemployer plans can continue their vital role in providing retirement, health, training, and other benefits to America's working men and women.

Thank you for the opportunity to appear before you today as you consider the crisis facing the multiemployer system, its plans, participants, employers as well as the nation as a whole. I would like to commend this Committee for your focus on this urgent issue.

The Multiemployer System and the U.S. Economy

The multiemployer system is a significant financial contributor to the U.S. Government, state and local governments, and the U.S. economy. The charts below highlight the results from economic impact studies that NCCMP commissioned with the National Institute on Retirement Security and the Segal Group.

Figure 1. Multiemployer Pension Facts¹

Metric (\$ Billions)	2015	10-Year Federal Budget Window
Pension Benefits Paid to Retirees	\$41.0	\$438.6
Wages Paid to Active Workers	\$203.1	\$2,124.4
Gross Domestic Product (GDP) from the Multiemployer System	\$1,015.7	\$12,433.2
Total Employer Revenues	\$1,218.3	\$12,746.5
U.S. Jobs Related to the Multiemployer System	13.6 million	

Figure 2. Federal Taxes Paid on Pension Payments, Wages, and Related Economic Output²

Federal Taxes (\$ Billions)	2015	10-Year Federal Budget Window
Paid on Pension Benefits to Retirees	\$3.5	\$37.2
Generated from Economic Output Related to Pension Spending	\$6.6	\$70.4
Paid on Wages to Active Employees and Economic Output on Wages	\$148.4	\$1,552.9
Total Federal Taxes Paid	\$158.5	\$1,660.5

Figures 1 and 2 show that in 2015 alone, the multiemployer system provided \$158 billion in taxes to the U.S. Government. We also provided \$41 billion in pension income to our retirees and paid more than \$203 billion in wages to our 3.8 million active workers. Combined, the pension and wage income supported 13.6 million American jobs and generated \$1 trillion in GDP.

While the vast majority of multiemployer plans are financially healthy, there is a significant crisis looming without Congressional action. Congress understood this when it established the Joint Select Committee on Solvency of Multiemployer Pension Plans (JSC) in February 2018. However, with no legislation put forth by the JSC that would solve the crisis, the urgency for Congress to act this year is critical.

Without Congressional action, approximately 10% of multiemployer pension plans covering 1.5 million participants will inevitably become insolvent and run out of assets needed to pay benefits. As you grapple with how this crisis may be averted, it is of utmost importance that care is taken to preserve and protect the majority of plans that are currently in solid financial health. Multiemployer plans play a vital role in providing modest but essential lifetime retirement income to approximately 10.4 million American workers. These pension benefits, in combination with personal savings and Social Security, allow these working-class Americans to retire with dignity.

When a pension plan is facing insolvency, the Pension Benefit Guaranty Corporation (PBGC) is intended to step in to provide a backstop for these pension benefits. However, for multiemployer plans, the guarantee is quite modest – a maximum of \$12,870 per year for a participant who retires after working for 30 years under the plan. A participant who retires with more years of service would have a higher maximum (\$17,160 after 40 years of service), while a participant who retires

with fewer years of service would have a lower maximum benefit (\$8,580 after 20 years of service). On average, the retiree in an insolvent plan that goes to the PBGC will see a 53% reduction from the pension benefits they had expected to receive from their plan.

Unfortunately, the PBGC itself is also facing insolvency. The 2017 PBGC Projections Report released in May 2018 indicates that the PBGC is not expected to have assets in its multiemployer program fund to pay guaranteed benefits by the end of 2025. When the PBGC itself fails, under law it may only provide assistance for the level of benefit that is supported by its premium income, and even the modest guaranteed amounts currently provided will be further reduced, leaving the retiree with a 94% to 98% reduction from the benefit they had expected to receive under their plan.

The consequences of inaction are severe, will affect not only the participants in these plans, but the plan's contributing employers, taxpayers, and the national economy, and are growing every single day that action is not taken.

How Did We Get Here?

While most multiemployer plans are in good health, a small number of plans, including some very large plans covering hundreds of thousands of participants, are facing inevitable insolvency in the very near future. It is critical to note that the funding challenges currently facing some multiemployer plans are not the result of reckless investing, aggressive assumptions, or unreasonably large benefits. Rather, the current crisis is the result of two back-to-back market collapses in 2000-2002 and 2008 and the subsequent Great Recession, as well as the unintended consequences of otherwise well-intentioned legislation

When we look at causes of the current crisis, it is important to understand that multiemployer pension plans are established and operate much differently than other types of pension plans with which you may be familiar, including both defined contribution plans like 401(k)'s and single employer defined benefit plans. Multiemployer pension plans are the result of collective bargaining agreements between one or more labor unions and more than one contributing employer. They are defined benefit plans where each participant earns a benefit for each year that they work in covered employment under the plan.

Unlike a defined contribution plan, in which all participants' account balances fluctuate daily with the market, once earned, participants' benefits under multiemployer plans may not be reduced except in very limited circumstances such as severe financial distress or projected plan insolvency. When a participant retires, that benefit is paid for the remainder of his or her lifetime.

Each multiemployer plan is governed by a board of trustees with equal representation from both management and labor – creating a “checks and balances” system that has worked well. The trustees also rely on credible and credentialed professionals such as investment consultants, professional asset managers, actuaries, attorneys, and accountants as advisors who provide additional checks on the actions of the board of trustees. Furthermore, the Department of Labor has overseen the management of multiemployer plans through its audit and enforcement programs and initiatives. The contributions required by the collective bargaining agreements are made to a separate trust that is independent of both the contributing employers and organized labor who

jointly sponsor the plan. Once negotiated, those contributions may not be stopped or reduced without reopening the collective bargaining process.

The current financial conditions in these plans can be traced back to the unintended consequences of 45 years of federal laws, regulations, rules, policies, and Treasury's unwillingness in 2016 to implement the Multiemployer Pension Reform Act of 2014 (MPRA) in a statutorily faithful manner. In addition, the poor investment returns that occurred during the dot com bubble burst, 9/11 and the corporate accounting scandals during the 2000-2002 time period, followed by the financial market collapse in 2008 and 2009 which led to the subsequent Great Recession, created significant funding challenges for multiemployer plans.

The specific federal laws and policies that have been detrimental to multiemployer plan funding include the limitation on the ability of trustees of severely troubled plans to proactively manage benefits over time to remain consistent with the available assets and preserve plan solvency presented by the anti-cutback rule under the Employee Retirement Income Security Act of 1974 (ERISA), the excise tax on contributions to fully-funded plans as part of the Tax Reform Act of 1986, the withdrawal liability established as part of the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA), and the deregulation of the trucking industry through the Motor Carrier Act of 1980, and. Technological advances, global offshoring and trade policy are also crucial factors that led to the decimation of formerly vibrant domestic industries.

While these policies were implemented with the intention of protecting both participants and plans, they have had significant unintended consequences over time. The establishment of withdrawal liability under MPPAA expanded the contributing employers' funding obligations beyond the level that was mutually agreed upon by management and labor. This has had disastrous consequences for employers and plans. It is a proximate cause of employers leaving the multiemployer system; it has limited the opportunities for owners to sell, merge or pass-down their businesses; and it has made it significantly more difficult to bring new employers into the multiemployer system. Withdrawal liability has exacerbated the poor demographic trends affecting public and private pensions, as well as Social Security.

Likewise, the intent of the ERISA's anti-cutback rule was to protect benefits that participants have earned, given highly publicized pension failures pre-ERISA. This is clearly intended to be beneficial to participants. However, for plans that are currently facing insolvency, this rule has severely restricted the ability of trustees to manage plans in situations where the assets may no longer be able to support the level of benefits that was previously anticipated. Had trustees in troubled plans been able to make adjustments earlier, well in advance of a projected insolvency, the reductions required to maintain solvency would have been significantly less than those participants are currently facing. Ultimately, the anti-cutback rule does not actually protect participants in failing plans from benefit reductions, it simply means that those multiemployer participants will face even more severe benefit cuts when their plan becomes insolvent and subject to the PBGC guarantee, and further benefit cuts when the PBGC itself goes insolvent.

The Internal Revenue Code (IRC) requires funding of multiemployer plans. However, the Tax Reform Act of 1986 (TRA '86) imposed an excise tax on contributions to fully funded plans and

limited the deduction an employer may take for contributions. Multiemployer plan contributions are determined through the collective bargaining process, and employers that do not make those required contributions are in violation of federal labor law. After TRA '86, if a plan became overfunded as a result of strong investment gains, employers would not have been able to deduct all required negotiated contributions and would have been subject to an excise tax on the excess. Legislation effective in 2002 (as fortunes turned and plans had investment losses) finally increased the tax deduction limits. However, to address this problem in the 1990s, trustees increased participant benefits (i.e., increased plan liabilities), so that employers would not be subject to the severe excise tax on contributions to a fully funded plan. Additionally, ERISA and the IRC have prohibited plans from reducing already accrued benefits (with minor exceptions granted to Red Zone plans in by the Pension Protection Act of 2006 (PPA '06), and to critical and declining status plans by MPRA in 2014) regardless of the financial health of the plan. As a result, plans were not allowed to develop a surplus, and the benefit increases that occurred during good times, cannot be undone in bad times.

It is worth noting that the situation that faced single-employer defined benefit pension plans during this period was very different. The most obvious difference was the fact that the sponsors of these plans had the option to simply stop contributing to the plans during periods of overfunding. Many plan sponsors took advantage of this option, and it was not uncommon for these companies to make no contributions to these plans for multiple years. At the same time, there was no need for these plans to raise their benefit levels to eliminate the overfunding, so many of them remained significantly overfunded year after year. Some observers have noted that single-employer plans have historically had higher funding levels than multiemployer plans. This observation is true but ignores the fact that in the PBGC's single employer program, the PBGC is the insurer of first resort, which means that poorly funded plans are typically taken over by the PBGC during an employer's bankruptcy process, thus eliminating the poorly funded plans from the reported data. Additionally, the ability of single employer plans to effectively maintain a surplus position gave them an inherent funding advantage over multiemployer pension plans.

In fact, while the funded level of the few single-employer plans remaining today is strong, the number of plans and the amount of retirement security they afford their participants has fallen precipitously. The laws, regulations, PBGC premiums, and funding requirements established for single employer plans by the PPA '06 as well as the numerous changes that FASB has made to pension accounting standards since the mid-1980's have had a significant negative impact on the economic viability of single-employer defined benefit pension plans for employers. The PBGC data shows that since the passage of ERISA, 87%³ of single employer defined benefit plans no longer exist, either through standard terminations or distressed trustee terminations. Additionally, 8,285 plans have accrual or participation freezes, leaving 14,048 open insured single-employer plans. The laws, regulations and rules governing single-employer defined benefit plans have clearly incited employers to terminate their defined benefit plans, discouraged employers from offering a defined benefit pension, and has led to weakening of the retirement security for working Americans.

Treasury's implementation of MPRA prior to 2017 was completely outside of what Congress and the multiemployer community intended. While Treasury's process has improved, its interpretation of MPRA requirements remains a risk to restoring plan solvency, protecting the retirees of critical and declining status plans from the far larger benefit reductions they will see when their plans go insolvent and become subject to the PBGC guarantee, and the even larger benefit reductions they will see when the PBGC itself becomes insolvent. Further, MPRA provided the U.S. Government with the best tool to ensure that plans do not come to the PBGC in the first place because every approved MPRA application removes that plan from the list of plans that comprise the PBGC's deficit, thereby improving the finances of the PBGC's multiemployer program.

The 2016 rejection of the Central States Pension Fund's MPRA application will have serious negative consequences for participants, employers, unions, the multiemployer system, and all levels of government. For critical and declining status plans, every year that goes by without a real solution results in negative cash flow, which reduces the plan's assets, and moves the plan closer to insolvency. This rejection also impacted the finances of the PBGC and its multiemployer program. Had the Central States Pension Fund's MPRA application been approved, approximately \$20 billion of the PBGC's deficit would have been eliminated.

Since 2000, trustees of multiemployer plans have in fact taken dramatic self-help steps to both increase contributions and reduce future benefits for active participants to restore their plans to health. One example comes from Mr. Brian Slone, an Apprentice Instructor for Millwright Local 1090 in Dayton, OH and participant in the Southwest Ohio Carpenters Pension Fund. Mr. Slone testified before the Joint Select Committee on Solvency of Multiemployer Pension Plans on July 13, 2018⁴ saying:

*"To put it in dollar terms, since the 2000 recession, the Fund has repeatedly cut back the benefits received by the members who were active at that time. Because of these cuts, a Fund participant who has accrued benefits can now expect a pension that is around 30% less than a similar person who retired in 2000. For example, a participant with 30 years of service working 1,500 hours a year would have contributed approximately \$85,000 over their working years and received a monthly benefit of about \$3,130. A participant retiring in 2016 would have contributed approximately \$153,000 and received a monthly benefit of about \$2,210 per month. A participant retiring in 2030 will have contributed approximately \$290,000 and will receive a monthly benefit of approximately \$1,640. This participant will **contribute 3.5 times more** than the 2000 retiree and **receive 40% less** in monthly benefit, 30 years later, not adjusted for inflation."*

[Emphasis original]

While extremely difficult for all stakeholders, the remedial actions taken by the plan trustees have enabled most multiemployer plans to return to strong funding levels over the last decade. But these corrective actions were not sufficient for some plans.

The Cost of Inaction

Since the largest plan insolvencies and the complete insolvency of the PBGC are still a few years away, it can be tempting to dismiss this problem as not immediate. But the consequences of inaction are enormous, in many cases are already being felt now, and only grow worse the longer we wait to take action.

Costs for Participants

As others will almost certainly testify, the costs currently facing participants in plans facing insolvency are severe. Based on NCCMP’s review of twelve MPRA applications, participants would face an average benefit reduction of 36% under the applications filed with the Department of the Treasury. For example, a participant earning \$27,300 per year in retirement, this reduction would mean the retiree would receive \$17,472 per year after the average MPRA reduction.

While this is a life-altering reduction, this outcome is far better than the 53% reduction the same participant would see if their plan’s MPRA application is denied, as it was for the Central States Pension Fund. At insolvency, participants become subject to the modest PBGC guaranteed level, including our example participant, and would receive a maximum of \$12,870 per year (at 30-years of service), or \$1,072.50 per month. This guarantee level represents a significant reduction from the level most participants in multiemployer pension plans are receiving today and would present a severe financial hardship for most retirees.

But even that reduction is not the end of the story, because the PBGC has reported in its FY2017 Projections Report that it is more likely than not that the Corporation will run out of money by the end of 2025. Unless Congress takes swift action, the PBGC will become insolvent. When that happens, participant benefits will be reduced yet further, to pennies on the dollar. As Director Reeder testified in his appearance before this Committee in November 2017⁵, the PBGC would only be able to provide assistance at the level supported by premium payments. In his oral testimony, he anticipated that participants would receive no more than 5% of the benefit they would have received under their plan, or a 95% benefit reduction. At PBGC insolvency, assuming that the retiree worked a full 30-year career, our example participant who originally expected to receive \$27,300 per year from his plan would be reduced to a benefit of approximately \$1,365 per year – or \$114 per month. For those with less than 30 years of service at retirement, the benefit would be even less.

Figure 3: Benefit Reductions Under Current Law⁶

(\$ Billions)	Contractual Benefits Payable	Benefits Payable Under MPRA Application	Benefits Payable from PBGC Current Law	Benefits Payable from PBGC At PBGC Insolvency
MPRA Applicants*	\$6.02	\$4.06	\$2.83	\$0.14 - \$0.35
Percent Reduction from Contractual Benefits Payable	0%	36%	53%	94% to 98%

* Central States, Southeast and Southwest Areas Pension Plan, New York State Teamsters Conference Pension & Retirement Fund, Western States Office & Professional Employees Pension Fund, Southwest Ohio Regional Council of Carpenters Pension Plan, Iron Workers Local 17 Pension Fund, Teamsters Local 469 Pension Plan, Local 805 IBT Pension & Retirement Plan, Ironworkers Local 16 Pension Fund, Int'l Assoc. Of Machinists Motor City Pension Fund, Alaska Ironworkers Pension Plan, Bricklayers and Allied Craftworkers Local 5 Pension Plan, and the Bricklayers & Allied Craftsmen Local No. 7 Pension Plan.

Costs for Employers

The lead up to the insolvency of a plan, and the actual insolvency of a plan, particularly one as large and systemically important as the Central States Pension Fund will have dramatic consequences on the financial health of the contributing employers. Certain consequences such as more expensive or more limited bank credit or capital are being felt now by the contributing employers in the Central States Pension Fund.

While it is difficult to know today the full extent of the damage, at plan insolvency it is highly likely that a number of employers in the Central States Pension Fund and other plans will become balance sheet insolvent and need to file for reorganization under Chapter 11 or Chapter 7 of the Bankruptcy Code. Some observers have argued that future insolvent plans, including the Central States Pension Fund, will not terminate through mass withdrawal, and therefore, employers will continue to contribute and will not have to book the withdrawal liability on their balance sheets.

This view misinterprets the market-based responses from the Financial Accounting Standards Board (FASB), the accounting profession, banks, and the capital markets. For example, almost every employer in the multiemployer system relies on bank credit, capital market debt, or equity to keep their company a going concern. Given the scale of the liabilities that would be imputed to the contributing employers at insolvency—even if mass withdrawal is not invoked—the banks that provide capital to the employers in these insolvent plans will most assuredly consider the withdrawal liability or the otherwise required perpetuity contribution payments without benefit as part of pro forma financial statements used in making lending decisions. The capital markets will be equally unforgiving when it comes to producing pro forma financial statements that would be used to sell the debt or equity issuances of the employers to investors in the market.

Banks and investment banks that provide access to the capital markets have most assuredly learned a number of lessons from the financial crisis as it relates to their responsibility for borrower or issuer due diligence. They have paid \$243 billion in fines⁷ since 2008 and have repurchased massive amounts of securities that they sold because they did not perform the proper due diligence on the borrower or issuer. The banks and investment banks that these employers rely on for capital formation would simply be negligent if they ignored withdrawal liability or the otherwise required perpetuity contribution payments without benefit that would be imputed to the employer at plan insolvency.

The notion that the private market would ignore these liabilities is inconsistent with market behavior during the financial crisis which began as early as August 2007. In fact, even the “AAA” rated Government Sponsored Enterprises (GSEs) saw that market participants will make their own valuation of an issuers’ liabilities. In June and July of 2008, the market became very concerned about the value of the mortgages that underpinned Fannie Mae and Freddie Mac mortgage-backed securities. The market reaction was so swift that Congress enacted the Housing and Economic Recovery Act of 2008 in less than four weeks, which authorized Treasury to purchase unlimited amounts of Fannie Mae and Freddie Mac securities. Today, both entities remain in conservatorship, Treasury owns \$196.4 billion of Senior Preferred Stock in both and has commitments for another \$254 billion if needed, and the Federal Reserve owns more than \$1.4

trillion of Fannie and Freddie mortgage-backed securities—all of which presents a very clear picture of how the market continues to view the GSEs a decade later.

Separate from the banks and capital markets, the insolvency of these plans, and in particular the scale represented by the insolvency of the Central States Pension Fund and the liabilities that would be imputed to employers, will also cause FASB to reconsider the accounting standards used for multiemployer pensions. The contributing employer's proportional share of the unfunded liability in a multiemployer plan has been a topic of concern for accountants for many years, and those concerns will become more real when faced with the insolvency of a large systemically important plan like the Central States Pension Fund.

In 2010, FASB initially sought on-balance sheet recognition of an employer's proportional share of the plan's unfunded liability before settling on a footnote disclosure of the multiemployer pension plans that the employer contributes to, the zone status and any funding improvement or rehabilitation plans, as well as the employer's annual contributions to the plans. Changes by FASB to multiemployer pension accounting that requires on-balance sheet recognition of the plan's unfunded liabilities will limit many employer's access to bank credit and capital and will drive many employers to seek protection under the Bankruptcy Code. This in turn will reduce employment and the financial health of the multiemployer plans that support 10.4 million participants and that provide enormous tax revenue to the government.

Costs to Taxpayers and the U.S. Government

Just as there are severe costs for plan participants and employers, taxpayers at the federal, state, and local level will all bear a heavy burden if Congress does not intervene to prevent the multiemployer solvency crisis. Alex Brill's report, *The Crisis Facing Multiemployer Plans*, calculates the single year impact in 2025 of the failure of a single plan – the Central States Pension Fund. He determines that:

“...the loss of projected pension benefits to Central States pensioners would lead to the loss of more than 55,000 jobs across the United States in 2025. Labor income would drop by nearly \$3 billion, and GDP by more than \$5 billion. State and local tax revenue would decline by nearly \$450 million, and federal revenue by \$1.2 billion.”

Mr. Brill's report presents a startling and useful data point but represents only a small piece of the broader reaching and significantly longer lasting impact of the multiemployer crisis facing us today. In addition, since these pension benefits represent a significant portion of multiemployer participants' income in retirement, there will be significant costs as a result of retirees' increased reliance on public social safety nets if the plans are permitted to fail. As discussed in a United States Senate Committee on Finance report issued in January 2012 by then Ranking Member Senator Orrin Hatch titled, *State and Local Government Defined Benefit Pension Plans: The Pension Debt Crisis that Threatens America*⁸, when the full pension promises are not kept, there will be additional demands (costs) on:

“...the resources of Federal programs such as Medicaid, The Emergency Food Assistance Program (“TEFAP”), the Supplemental Nutritional Assistance program (“SNAP” or Food Stamps), and the HUD Public Housing Assistance Program, just to name a few. The projected growth of these entitlement programs contributes significantly to the federal government’s fiscal problems.”

The report concludes that:

“[i]t is simply unrealistic to presume, that no state or local pension plan will fail or that such failure will have no effect on federal spending or revenue.”
 [Emphasis added]

This is even more true for multiemployer pensions where the failure will result in 94% to 98% benefit reductions to retirees.

The insolvency of the Central States Pension Fund and the PBGC will dramatically reduce the pension benefits payable to the retirees in insolvent plans. It will also affect the current jobs available with contributing employers. The collapse of these plans and the broader contagion within the multiemployer pension system will result in the loss of tax revenue for the Federal Government.

There are 1,267,767 participants in plans that are in critical and declining status. Of these participants, 653,739 are retirees currently in pay status, and 203,501 are active workers that are currently being paid wages. Based on NCCMP’s report⁹ that showed that the system paid \$158 billion in federal taxes during 2015, and adjusting for the impact of the 2017 tax reform, we believe that the U.S. Government will lose between \$32 billion and \$103 billion in tax revenue over the 10-year budget window from the lost pension and wage income resulting from the collapse of critical and declining status plans and estimated employment losses between 15% and 100% of the active workers in these plans as described in Figure 4 below.

Figure 4: Federal Tax Revenue Loss (2019-2028) - No Change to Current Law (\$Billions)

	15% Employment Losses	25% Employment Losses	40% Employment Losses	100% Employment Losses
Federal Tax Revenue Source				
Pensions and Pension Based Output ¹⁰	\$19.6	\$19.6	\$19.6	\$19.6
Wages and Wage Based Output ¹¹	\$12.5	\$20.8	\$33.3	\$83.1
Total Federal Tax Revenue Loss	\$32.1	\$40.4	\$52.8	\$102.7

Since one proposed solution to this crisis includes a federal credit program that offers 30-year loans, it is illustrative to also consider the lost tax revenue on the same basis on which a federal loan would be evaluated. On this basis and as described in Figure 5 below, we believe that the U.S. Government will lose between \$68 billion and \$215 billion in tax revenue on a net present value basis over the 30-year period of the proposed loan alternative, using the same discounting methodology that OMB uses for federal credit programs under the Federal Credit Reform Act.

Figure 5: 30-Year Net Present Value of Federal Tax Revenue Loss (2019-2048) - No Change to Current Law (\$Billions)

Federal Tax Revenue Source	15% Employment Losses	25% Employment Losses	40% Employment Losses	100% Employment Losses
Pensions and Pension Based Output ¹²	\$42.5	\$42.5	\$42.5	\$42.5
Wages and Wage Based Output ¹³	\$26.0	\$43.3	\$69.3	\$173.2
Total Federal Tax Revenue Loss	\$68.5	\$85.8	\$111.8	\$215.7

However, the loss of tax revenue is only one cost that the government will see from the insolvency of these plans and the PBGC. Retirees that see a 94% to 98% reduction in their pensions will be forced into the social safety net that the U.S. Government and the States provide. As discussed above, the U.S. Senate Committee on Finance report issued in January 2012 recognized this reality, although it considered it in the context of state and local government pensions. The failure of the multiemployer plans and the PBGC is significantly worse than the context raised in Ranking Member Hatch’s report because governmental entities are sovereigns with taxing authority, and other options to fix their liabilities, while multiemployer retirees will face a nearly complete loss of benefits following the collapse of the PBGC.

Figure 6 below outlines the U.S. Government’s FY2017 spending on the relevant safety net programs and their participants.

Figure 6: Federal Safety Net Spending (FY2017)

Federal Safety Net Program (\$ Billions)	FY 2017 Spending	Participants (millions)	Average Spending Per Participant
Medicaid	\$389.4 ¹⁴	67.6 ¹⁵	\$5,763
Supplemental Security Income (SSI)	\$53.0 ¹⁶	8.1 ¹⁷	\$6,548
Supplemental Nutritional Assistance Program (SNAP)	\$78.5 ¹⁸	42.2 ¹⁹	\$1,860
Housing Assistance	\$45.8 ²⁰	4.7 ²¹	\$9,749
Low Income Home Energy Assistance Program (LIHEAP)	\$3.4 ²²	6.0 ²³	\$565
Total Federal Safety Net Spending	\$570.1		

Based on 2017 data, we estimate that the U.S. Government will have new safety net spending over the 10-year budget window of \$138.3 billion (see Figure 7) and \$263.8 billion on a net present value basis over the 30-year period 2019-2048. This is based on conservative participant estimates limited to the 63,000 retirees currently in pay status at the PBGC and the 653,379 retirees currently in pay status in plans that are currently in critical and declining status. The estimate for new Medicaid spending is limited to 10% of those in pay status. We based the 10% estimate on those who were pre-65 and in pay status in a very large critical and declining status plan.

Figure 7: New Federal Safety Net Spending by Program (2019-2028) and (2019-2048) (\$Billions)

New Federal Safety Net Spending	2019-2028	2019-2048 (Net Present Value)
Housing Assistance ²⁴	\$69.9	\$133.3
Supplemental Security Income (SSI) ²⁵	\$46.9	\$89.5
Supplemental Nutritional Assistance Program (SNAP) ²⁶	\$13.3	\$25.4
Medicaid (10% of Retirees in Pay Status Eligible) ²⁷	\$4.1	\$7.9
Low Income Home Energy Assistance Program (LIHEAP) ²⁸	\$4.1	\$7.7
Total New Federal Safety Net Spending	\$138.3	\$263.8

Combined, the 10-year cost to the U.S. Government of not finding a bipartisan solution to the multiemployer pension crisis is between \$170 billion and \$240 billion. These costs will continue for decades after the first 10-year budget window and, on a net present value basis, will cost between \$332 billion and \$479 billion over the 30-year period between 2019-2048.

The actual costs are likely to be higher, perhaps significantly, depending on whether additional plans currently in critical status are unable to restore themselves to health through their rehabilitation plans and decline further into critical and declining status, how the broader contagion plays out with employers, and the impact of the market-based responses of FASB, banks and the capital markets on the contributing employers.

Contagion

Some observers have expressed doubt about the existence of a contagion effect among multiemployer pension plans, believing instead that plans would fail in isolation with no further consequences than to their own participants and employers. Nothing could be further from the truth. The universe of multiemployer plans is incredibly interconnected, with many employers participating in many different multiemployer plans.

While accurately quantifying the interconnectedness of the multiemployer system is difficult, it is clear that the failure of a large, systemically important plan like the Central States Pension Fund would have devastating consequences on other Teamster sponsored plans and the multiemployer system as a whole. There is significant overlap in employers between the Central States Pension Fund – a plan that is facing insolvency within the next few years – and many other multiemployer pension plans including those that are currently healthy.

When the Central States Pension Fund or other funds become insolvent, it can have dramatic consequences on the financial health of the contributing employers. This will, in turn, damage their ability to make contributions to other funds in which they also participate. While it is impossible to say with certainty how severely the currently better funded plans would be impacted by this weakening of their employer base, it is safe to say that any plan that shared employers with a failed plan would be in a less stable position going forward and, depending on the severity of the harm done to employers, could face new financial challenges themselves.

In the “Costs to Employers” section above, we outlined various types of market-based responses that represent contagion impacts that we have seen to-date as well as additional responses that we expect at the insolvency of the Central States Pension Fund.

Conclusion

The costs of inaction are substantial and increase dramatically the longer we wait – for the multiemployer plans currently facing insolvency, the participants and employers in those plans, the U.S. Government, and the nation as a whole. While the Joint Select Committee was not successful in developing a legislative solution that would solve the serious issues facing critical and declining status plans without decimating the rest of the multiemployer system, many of the ideas that were put forth could be reworked to form a credible solution that protects retirees while strengthening the entire multiemployer system.

We thank you for your attention to this urgent matter and look forward to working with you on bipartisan solutions that protect and preserve plans that are financially healthy, that can garner the necessary support to pass the House and the Senate, that can be signed into law and implemented by the Executive Branch, and that will solve the problem.

Thank you for the opportunity to share these thoughts, and I look forward to your questions.

¹ See National Coordinating Committee for Multiemployer Plans, Multiemployer Pension Facts and the National Economic Impact, January 5, 2018, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>, slide 5-7.

² See National Coordinating Committee for Multiemployer Plans, Multiemployer Pension Facts and the National Economic Impact, January 5, 2018, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>, slide 8.

³ Calculation = (140,935 standard terminations plus 4,769 trusted terminations, plus 22,333 current plans at paying PBGC premiums)/22,333. See Pension Benefit Guaranty Corporation, Standard Terminations 1975-2016, Table S-3, https://www.pbgc.gov/sites/default/files/2016_pension_data_tables_-_release_1.pdf

⁴ See Joint Select Committee on Solvency of Multiemployer Pension Plans, *Understanding What's at Stake for Current Workers and Retirees*, July 13, 2018, <https://www.pensions.senate.gov/sites/default/files/Brian%20Slone%20testimony%20v3%20Final.pdf>.

⁵ See Testimony of The Honorable W. Thomas Reeder, Director, Pension Benefit Guaranty Corporation before the House Committee on Education and the Workforce Subcommittee on Health, Education, Labor and Pensions, "Financial Challenges Facing the Pension Benefit Guaranty Corporation: Implications for Pension Plans, Workers, and Retirees", November 29, 2017, <https://edlabor.house.gov/imo/media/doc/PBGC%20Testimony-%20E&W%20HELP%20Subcommittee%2011-29-2017.pdf>

⁶ See National Coordinating Committee for Multiemployer Plans, The Multiemployer Pension Crisis and the Cost of Congress Doing Nothing, August 14, 2018, <https://nccmp.org/wp-content/uploads/2018/05/Multiemployer-Pension-Crisis-The-Cost-of-Congress-Doing-Nothing-May-16-2018-Updated-Aug-14-2018.pdf>, slide 5.

⁷ CBS MarketWatch, Steve Goldstein, "Here's the staggering amount banks have been fined since the financial crisis", February 24, 2018. Accessed at <https://www.marketwatch.com/story/banks-have-been-fined-a-staggering-243-billion-since-the-financial-crisis-2018-02-20>.

⁸ United States Committee on Finance, *State and Local Government Defined Benefit Pension Plans: The Pension Debt Crisis that Threatens America*, A Report by Ranking Member Orrin Hatch (R-Utah), January 2012, <https://www.cafsti.org/wp-content/uploads/briefingroom/Hatch-Report-The-Pension-Debt-Crisis-that-Threatens-America.pdf>

⁹ See National Coordinating Committee for Multiemployer Plans, January 5, 2018, Multiemployer Pension Facts and the National Economic Impact, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>.

¹⁰ Derived from National Coordinating Committee for Multiemployer Plans, Multiemployer Pension Facts and the National Economic Impact, January 5, 2018, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>. 2015 Federal Taxes Paid on Pension Benefits and Economic Output Related to Pension Benefits (Slide 8) are inflated at 1.0% annually between 2016 and 2047. Tax revenue is then reduced by the average tax reform amounts for the period between 2018 and 2047 as projected by CBO's pre-reform and post-reform estimates. The tax revenue loss is the summation of the yearly product of the tax revenue and the percent of retirees in critical and declining status plans presumed to go insolvent, which includes 653,739 retirees in pay status. This is for the period 2019-2028.

¹¹ Derived from National Coordinating Committee for Multiemployer Plans, Multiemployer Pension Facts and the National Economic Impact, January 5, 2018, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>. 2015 Federal Taxes Paid on Wages to Active Employees and Economic Output from Wages (Slide 8) are inflated at 1.0% annually between 2016 and 2047. Tax revenue is then reduced by the average tax reform amounts for the period between 2018 and 2047 as projected by CBO's pre-reform and post-reform estimates. The tax revenue loss is for the period 2019-2028 and are the summation of the yearly product of total taxes generated and projections of 15%, 25%, 40%, and 100% employment losses among the 203,501 active workers in Critical & Declining plans.

¹² Derived from National Coordinating Committee for Multiemployer Plans, Multiemployer Pension Facts and the National Economic Impact, January 5, 2018, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>. 2015 Federal Taxes Paid on Pension Benefits and Economic Output Related to Pension benefits (Slide 8) are inflated at 1.0% annually between 2016 and 2048. Tax revenue is then reduced by the average tax reform amounts for the period between 2019 and 2048 as projected by CBO's pre-reform and post-reform estimates. The tax revenue loss is the summation of the yearly product of the tax revenue and the percent of retirees in critical and declining status plans presumed to go insolvent. This is for the period 2019-2048, discounted at OMB's current single effective rate of 3.21%.

¹³ Derived from National Coordinating Committee for Multiemployer Plans, Multiemployer Pension Facts and the National Economic Impact, January 5, 2018, <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>. 2015 Federal Taxes Paid on Wages to Active Employees and Economic Output from Wages (Slide 8) are inflated at 1.0% annually between 2016 and 2048. Tax revenue is then reduced by the average tax reform amounts for the period between 2019 and 2048 as projected by CBO's pre-reform and post-reform estimates. The tax revenue loss is for the period 2019-2028 and are the summation of the yearly product of total taxes generated and projections of 15%, 25%, 40%, and 100% employment losses among the 203,501 active workers in Critical & Declining plans. Tax revenue loss is the net present value of the tax revenue loss for the period 2019-2048, discounted at OMB's current single effective rate of 3.21%.

¹⁴ Office of Management and Budget, Table 23-12 Baseline Net Budget Authority By Function, Category, and Program, <https://www.whitehouse.gov/wp-content/uploads/2018/02/23-12-fy2019.pdf>.

¹⁵ Center for Medicaid and CHIP Services (CMCS), <https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-enrollment-data/report-highlights/index.html>.

¹⁶ Office of Management and Budget, Table 23-12 Baseline Net Budget Authority By Function, Category, and Program, <https://www.whitehouse.gov/wp-content/uploads/2018/02/23-12-fy2019.pdf>.

¹⁷ Social Security Administration, Annual Statistical Supplement to the Social Security Bulletin, 2017, page 4, <https://www.ssa.gov/policy/docs/statcomps/supplement/2017/supplement17.pdf>.

¹⁸ Office of Management and Budget, Table 23-12 Baseline Net Budget Authority By Function, Category, and Program, <https://www.whitehouse.gov/wp-content/uploads/2018/02/23-12-fy2019.pdf>.

¹⁹ U.S. Department of Agriculture, Food and Nutrition Service, <https://fns-prod.azureedge.net/sites/default/files/pd/SNAPsummary.pdf>, page 2.

²⁰ Office of Management and Budget, Table 23-12 Baseline Net Budget Authority By Function, Category, and Program, <https://www.whitehouse.gov/wp-content/uploads/2018/02/23-12-fy2019.pdf>.

²¹ U.S. Department of Housing and Urban Development, Press Release dated February 12, 2018, https://www.hud.gov/press/press_releases_media_advisories/HUD_No_18_012.

²² U.S. Department of Health and Human Services, 2017 Second Release of LIHEAP Block Grant Funds to States and Territories under the Consolidated Appropriations Act, 2017 (P.L. 115-31), https://www.acf.hhs.gov/sites/default/files/ocs/dcl_final_release_stateterrr_table_calculations_fy17.pdf.

²³ U.S. Department of Health and Human Services, Office of Community Services, LIHEAP Fact Sheet, <https://www.acf.hhs.gov/ocs/resource/liheap-fact-sheet-0>.

²⁴ At insolvency of the PBGC multiemployer fund, the PBGC can only pay out benefits in the amount of the premium income it receives. This will result in retirees receiving benefits between 2% and 6% of their original contractual amount. These retirees will be able to access the federal poverty programs. Calculated based on the average federal Housing Assistance spending per participant of \$9,749 (Figure 5), multiplied by the sum of the PBGC's current 63,000 participants in multiemployer plans receiving financial assistance and the current 653,739 retirees in pay status at critical and declining status plans. The 2019-2028 spending is the summation of these annual amounts.

²⁵ At insolvency of the PBGC multiemployer fund, the PBGC can only pay out benefits in the amount of the premium income it receives. This will result in retirees receiving benefits between 2% and 6% of their original contractual amount. These retirees will be able to access the federal poverty programs. Calculated based on the average federal Supplemental Security Income (SSI) spending per participant of \$6,548 (Figure 5), multiplied by the sum of the PBGC's current 63,000 participants in multiemployer plans receiving financial assistance and the current 653,739 retirees in pay status at critical and declining status plans. The 2019-2028 spending is the summation of these annual amounts.

²⁶ At insolvency of the PBGC multiemployer fund, the PBGC can only pay out benefits in the amount of the premium income it receives. This will result in retirees receiving benefits between 2% and 6% of their original contractual amount. These retirees will be able to access the federal poverty programs. Calculated based on the average federal Supplemental Nutritional Assistance Program (SNAP) spending per participant of \$1,860 (Figure 5), multiplied by the sum of the PBGC's current 63,000 participants in multiemployer plans receiving financial assistance and the current 653,739 retirees in pay status at critical and declining status plans. The 2019-2028 spending is the summation of these annual amounts.

²⁷ At insolvency of the PBGC multiemployer fund, the PBGC can only pay out benefits in the amount of the premium income it receives. This will result in retirees receiving benefits between 2% and 6% of their original contractual amount. These retirees will be able to access the federal poverty programs. Calculated based on the average federal Medicaid spending per participant of \$5,763 (Figure 5), multiplied by 10% (an approximation of

retirees ineligible for Medicare) of the sum of the PBGC's current 63,000 participants in multiemployer plans receiving financial assistance and the current 653,739 retirees in pay status at critical and declining status plans. The 2019-2028 spending is the summation of these annual amounts.

²⁸ At insolvency of the PBGC multiemployer fund, the PBGC can only pay out benefits in the amount of the premium income it receives. This will result in retirees receiving benefits between 2% and 6% of their original contractual amount. These retirees will be able to access the federal poverty programs. Calculated based on the average federal Low Income Home Energy Assistance Program (LIHEAP) spending per participant of \$565 (Figure 5), multiplied by the sum of the PBGC's current 63,000 participants in multiemployer plans receiving financial assistance and the current 653,739 retirees in pay status at critical and declining status plans. The 2019-2028 spending is the summation of these annual amounts.