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GRIST

MULTIEMPLOYER PENSION RESCUE PLAN PASSES HOUSE, BUT SENATE OUTLOOK DIM

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Financially troubled multiemployer defined benefit plans could obtain federal loans and additional grants, under a sweeping $68 billion aid package approved July 24 by the Democrat-controlled House. The Rehabilitation for Multiemployer Pensions Act (HR 397) now heads to the Senate, where Republicans are unlikely to give the necessary votes for passage. Lawmakers in both parties agree on the need to shore up underfunded multiemployer plans but differ over possible solutions.

SEVERELY UNDERFUNDED PLANS ELIGIBLE FOR LOANS, GRANTS

The bill would create a Pension Rehabilitation Administration (PRA) within the Treasury Department to make loans to certain underfunded plans. If a loan is granted, the amount would reflect any grants of financial assistance the plan has received — or requests to receive — from the PBGC.

A plan would be eligible for loans and grants if it meets any one of the following conditions:

- Is in "critical and declining" status as defined in the Pension Protection Act of 2006 (PPA).
- Is in "critical" status under PPA, is less than 40% funded and has an active-to-inactive participant ratio of less than two to five.
- Became insolvent after Dec. 16, 2014, and has not yet been terminated.
- Has a suspension-of-benefits application approved under the Multiemployer Pension Reform Act (MPRA) of 2014.

Plans with suspension-of-benefits applications approved before the legislation's enactment would have to apply for a loan.

LOAN TERMS

As a condition of receiving a loan, a plan couldn't increase benefits, allow any participating employers to reduce their plan contributions or accept any collective bargaining agreements that would reduce contribution rates. A plan would also need to demonstrate that it could reasonably be expected to pay off the loan.

Loans would have "as low an interest rate as is feasible" but not lower than the rate for 30-year Treasury bonds. Loan repayments would consist of only interest for 29 years, with the full principal due after 30 years. The bill also offers a special accelerated repayment program with a reduced interest rate.

Loan amounts would have to be invested in a low-risk portfolio. If a plan is unable to make a scheduled repayment, the PRA could renegotiate new payment terms or forgive a portion of the principal.

Plans would not have to repay grants received from the PBGC.

REPUBLICAN OBJECTIONS, SEARCH FOR CONSENSUS

Many Republicans oppose the legislation, arguing it would do nothing to improve the underlying structural problems facing multiemployer plans. Opponents contend that many plans would fail to repay the loans and would ultimately cost taxpayers billions of dollars. Some GOP members also believe that the bill would give plan sponsors an incentive to forgo making adequate contributions to the plan.

These concerns are broadly shared in the party and make passage of the bill by the Republican-controlled Senate unlikely. Nonetheless, the bill has some support from Republicans with constituents at risk of losing benefits.

In addition, bipartisan talks will likely continue to explore potential changes to HR 397 and an array of other potential solutions to the problem. Lawmakers from both parties considered a number of ideas last year as part of the Joint Select Committee on Solvency of Multiemployer Pension Plans created in February 2018. The committee was charged with recommending legislation but failed to come to an agreement. In addition to a loan and grant program, proposals considered by the committee included large PBGC premium increases, a broad PBGC takeover of multiemployer plans, mandatory use of more conservative actuarial assumptions and an increase in plan retirement ages.

RELATED RESOURCES

- Rehabilitation for Multiemployer Pensions Act (HR 397) (Congress, July 24, 2019)
- Press Release (House Ways and Means Committee Chairman Richard Neal, July 24, 2019)
- Cost Estimate and Summary of HR 397 (Congressional Budget Office, July 23, 2019)

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