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Treasury Bond Proposal Hopes to Rescue Multiemployer Pension Plans

While we await news of the Senate tax bill's fate, our eyes turn to another retirement plan development – addressing multiemployer plan financial shortfalls. Legislation introduced in the House and Senate would create a new loan program financed with the sale of U.S. Treasury bonds.

Multiemployer Pension Rehabilitation Proposal

Legislation introduced earlier this month by Sen. Sherrod Brown, D-Ohio, and Rep. Richard Neal, D-Mass., (S. 2147 and H.R. 4444) aims to shore up struggling multiemployer plans with a federal loan program managed by a new Treasury Department office called the Pension Rehabilitation Administration. Funding for the program would come from the sale of bonds to financial institutions. Under the Senate "Butch Lewis Act of 2017" and House "Rehabilitation for Multiemployer Pensions Act," plans that obtain loans would use the funds to buy annuity contracts or set up bond portfolios to match anticipated benefit payments. The bills would also tap federal funds for PBGC so that they can help plans that can't borrow enough to meet obligations.

Plans eligible for the program would be multiemployer plans in critical and declining status, including any plan that received approval for a suspension of benefits under the Multiemployer Pension Reform Act of 2014 (MPRA), and those that are insolvent, if they became insolvent after December 16, 2014, and have not been terminated.

Plan sponsors that participate in the new program must agree not to increase benefits during the 30-year term of the loan other than to restore suspended benefits. In addition, they may not permit any participating employer to reduce contributions or accept any collective bargaining agreement that provides for reduced rates.

For employers that exit from the plan during the term of the loan, liability will be determined under mass withdrawal rules. Specifically, the 20-year cap on the number of withdrawal liability payments is eliminated and the withdrawing employer is required to pay its share of "reallocation" liability.

The bills do not include any PBGC premium increases for multiemployer plans – an idea previously floated in the 2018 budget proposal (see our May 30, 2017 *Legislate*).

PBGC Reports on Deficits

This month, PBGC released their **report** revealing a $65.1 billion deficit for the multiemployer pension program. The agency said the program is likely to be insolvent by 2025.

Comment. To some, these pension loans covered by bond issues may sound a lot like governmental plan pension obligation bonds (see our July 22, 2015 *For Your Information*). Theoretically, these multiemployer loans would be paid back to the Treasury at the end of 30 years and avoid leaving taxpayers holding the bag for payments due bond holders. We shall see.

Looking Ahead

For next week, we expect Tax Reform to again be center stage. As to the multiemployer legislation, because all of the co-sponsors are Democrats and no Republicans have opted to lend their support – we suspect it will not go far.

Authors
Marjorie Martin, FSPA, EA, MAAA
Joanne Jacobson, JD, LLM

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