Committee on Education and the Workforce
Subcommitte on Health, Employment, Labor, and Pensions

"Examining Reforms to Modernize the Multiemployer Pension System"

Wednesday, April 29, at 2:00 p.m.
Rayburn House Office Building, Room 2175
Washington, DC.

Chairman Roe, Ranking Member Polis and Members of the Committee, it is an honor to appear before you today on this important topic affecting millions of working men and women. My name is Mark McManus. I am the General Secretary Treasurer of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada. The United Association and its affiliated local unions co-sponsor with their collective bargaining partners more than 150 multiemployer defined benefit pension plans. The United Association welcomes the opportunity to present testimony to this Subcommittee in support of proposed legislation that would modernize the multiemployer pension system by making additional options available to Boards of Trustees and collective bargaining parties to continue to provide lifetime retirement income to the employees in multiemployer plans.

Multiemployer plans developed and exist in industries such as construction, trucking and entertainment characterized by frequent short term employment. In a typical single employer context, such frequent changes in employment would make it unlikely for employees in such industries to vest in a retirement plan or, if vested, to accumulate sufficient benefits to insure an adequate retirement. I will speak primarily from my knowledge of the construction industry but many of the issues and concerns affects other industries as well.

Multiemployer defined benefit plans have enabled skilled workers to earn and retain a pension that provides lifetime income. They have provided essential safeguards for the financial security of construction workers and have been the primary form of benefit delivery in the construction industry. While defined contribution plans have replaced defined benefit plans in many industries, in construction they remain as supplemental to defined benefit plans.

Many multiemployer defined benefit plans suffered significantly from investment losses in two economic downturns within a decade. Defined benefit plans in many industries including construction sustained further losses from reduced contributions when work on which employer contributions were required remained depressed for years following 2008. Plans that had been solidly-funded found themselves in endangered or critical status under the Pension Protection Act. In most cases, unions and employers have worked together to stabilize these plans but even those plans that are recovering financially are not as secure as they once were due to changes that threaten the continued existence of multiemployer defined benefit plans and the financial security of covered employees.

In 2010 the Financial Accounting Standards Board proposed changes in corporate financial statements that would have required burdensome and complicated disclosures about potential withdrawal liability to which an employer might be subject if it withdrew from a multiemployer plan. Although this proposal was ultimately modified to limit disclosures, the publicity surrounding this proposal made lending institutions aware that employers' potentially face withdrawal liability, but few are sufficiently familiar with the issue to have even a rudimentary understanding that withdrawal liability is only assessed if and when the employer ceases to have an obligation to pay into the pension fund. Nevertheless, employers have advised that they now find it difficult to obtain credit.

Employers cannot operate without access to credit and given a choice between losing the company or withdrawing from a multiemployer defined benefit plan, employers have used various methods to leave plans. In some cases an employer will simply negotiate and pay withdrawal liability rather than face continued uncertainty that even if they make their required contributions, forces beyond their control could cause such liabilities to re-emerge. Perhaps more importantly, new employers will not enter a defined benefit plan for fear of withdrawal liability.

As employers leave a multiemployer defined benefit plan and no new employers replace them, the contribution base of the plan is severely undermined. Employers and employees may see little advantage to continuing the plan. The NCCMP Retirement Security Review Commission recognized in ***Solutions Not Bailouts*** that plans have to be sustainable long term for the benefit of both workers and plan participants and their families and contributing employers – both goals have to be achieved at the same time or neither will be achieved.

The United Association believes that it is essential to the retirement security of our members to offer a plan that will provide life time income. The proposed reforms which remain unaddressed in the last Congress offer a new "composite" plan design that will preserve the life time income feature of a defined benefit plan but will not drive contributing employers out of the system because of the threat of withdrawal liability. The eroding employer support is causing significant harm to traditional defined benefit plans and is certainly one of the reasons for plan insolvency. PBGC premiums for multiemployer plans projected to become insolvent are adding an extra burden and threat to the survival of plans. As long as the threat of withdrawal liability exists, the pool of employers contributing to multiemployer defined benefit plans will not increase sufficiently to support the system. There will be a growing trend toward defined contribution plans which also present challenges to ensuring the desired income security to people in the mobile industries that rely on multiemployer plans. We believe that the innovative plan structures provided by composite plans are necessary as an additional option to provide adequate life time retirement security to United Association members among others.

Composite plans are not permitted under current law. As proposed they have features of both defined benefit and defined contribution plans. From the perspective of the United Association the most important feature is that these plans provide for the accumulation of benefits and provide a life time benefit in a manner similar to traditional defined benefit plans. We understand that in times of economic distress, benefits may be reduced. We believe, however, that the advance funding provisions are sufficient to protect participants. During the preparation of the ***Solutions Not Bailouts*** report, the NCCMP Retirement Security Review Commission's actuary stress tested the composite plan design and it performed well through an economic down turn similar to 2008. Subsequent stress testing of 106 multiemployer defined benefit plans examined to determine the impact on employer contributions to fund similar benefit structures demonstrated that in the majority of plans tested, plans can replicate the benefit provided at lower contribution rates than are required for the current defined benefit plan. Furthermore, our Canadian members have plans subject to similar provisions and those plans have run very well over the years providing life time benefits to our Canadian members.

While the debate among proponents of either defined benefit or defined contribution plans continues, we believe it is more constructive to move beyond the rhetoric and focus on the common objective of providing adequate retirement income to men and women who spend a career working to make our country all that it can be. The Multiemployer Pension Reform Act of 2014 gave some new tools to plan trustees and the government agencies to save failing defined benefit plans. This helps. But legislation to provide new tools to the bargaining parties through innovative plans like the composite model is still needed for the future. The proposed composite plan design provides an additional option to secure life time retirement income for our employees where support for traditional defined benefit plans continues to erode. If composite plans are not made available, we believe that many existing defined benefit plans will eventually be replaced with traditional defined contribution plans. The opportunity for creative solutions to our retirement income dilemma is within our grasp. We strongly encourage Congress to take advantage of it and expand available offerings to enable labor and management to find solutions which best meet their specific needs.

In closing, I would once again thank you for your work to improve the retirement security for our members and for the rest of the 10.4 million participants in multiemployer pension plans. I look forward to your questions.

Respectfully submitted,

Mark McManus
General Secretary-Treasurer