

INTERNATIONAL BROTHERHOOD OF TEAMSTERS

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January 2, 2020

The Honorable Charles Grassley
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Lamar Alexander
Chairman
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, D.C. 20510

The Honorable Patty Murray
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, D.C. 20510

Dear Senators Grassley, Alexander, Wyden, and Murray:

This letter offers the views of the International Brotherhood of Teamsters ("IBT") regarding the Grassley-Alexander Multiemployer Pension Recapitalization and Reform Plan (the "Grassley-Alexander Proposal"). The IBT and its local unions, along with thousands of employers, co-sponsor 150 multiemployer pension plans. A number of these plans, including the Central States Pension Plan, are troubled and projected to exhaust their assets over the next 20 years. The IBT has been actively seeking an equitable and fair legislative solution to the multiemployer pension crisis for over a decade. As you may know, the IBT worked closely with Rep. Richard Neal and Sen. Sherrod Brown to develop the fundamental elements of H.R. 397, the Rehabilitation for Multiemployer Pensions Act: the Butch Lewis Act, which was passed in the House of Representatives in July 2019 and was introduced in the Senate as S.2254. We continue to believe that S.2254 offers the most effective platform for stabilizing and providing benefit security for 10 million participants covered by the multiemployer pension system, as well as protecting the financial integrity of the Pension Benefit Guaranty Corporation ("PBGC").

The Grassley-Alexander Proposal, although well-intended, is a flawed approach to public policy that will accomplish the opposite of the goals set out by its authors. The IBT believes that the Grassley-Alexander Proposal actually threatens the long-term stability of the multiemployer pension system and the long-term solvency of the PBGC, and fails to prevent future crises among multiemployer pension plans. The IBT endorses the AFL-CIO Working Group on Retirement Security's technical submissions on the Grassley-Alexander Proposal. This letter will highlight the IBT's broad policy concerns involving the disastrous consequences of the Grassley-Alexander Proposal.

The Grassley-Alexander Proposal mistakenly assumes that Congress can burden an already financially stressed multiemployer pension system with an additional \$4.5 billion per year in PBGC premiums and punitive stakeholder taxes without driving employers, unions, and participants to abandon their plans. The authors of the Grassley-Alexander Proposal appear to have learned nothing from prior Congressional decisions to repeatedly raise PBGC premiums on single employer defined benefit pension plans. As fixed and variable PBGC premiums increased over the past two decades, corporations abandoned single employer defined benefit plans en masse. In economic terms, Congress created a classic insurance "adverse selection" scenario which incentivized employers to flee the defined benefit pension system. The Grassley-Alexander Proposal will repeat the same destructive effect among multiemployer pension plans. The only difference is that the reaction will be more immediate, not gradual. The economic rationale for employers, unions and participants to remain in the multiemployer pension system will disappear.

The Grassley-Alexander Proposal is further based on the illusion that by mandating lower discount rates, the multiemployer pension system will somehow rebalance itself and all will be well. Based on this faulty academic perspective, the multiemployer pension crisis is merely an accounting exercise which requires measurement accuracy.¹ According to some of the so-called experts advising Congress, discount rates should be no higher than high quality corporate bonds plus 2%, capped at 6%. The problem with that logic is that it ignores economic reality – the mandating of lower discount rates will immediately expand the current insolvency crisis of 125 plans to nearly all 1,400 multiemployer plans. (See submissions to the Joint Select Committee on Solvency of Multiemployer Pension Plans by Horizon Actuarial Services and Segal Consulting.) In effect, the Grassley-

¹ This approach overlooks and ignores that the single employer plan sponsor community successfully lobbied for pension funding relief after the enactment of the Pension Protection Act of 2006 mandated similar measurement.

Alexander Proposal spreads a bad situation for selected multiemployer plans across the entire multiemployer pension community.

The fundamental tools of the Grassley-Alexander Proposal, PBGC premium increases and mandated lower discount rates, will cripple and undermine the entire multiemployer pension system. The IBT's opinion on this point is strongly supported by the December 23, 2019 submission authored by the American Academy of Actuaries ("AAA"). The AAA states that "[i]gnoring the retiree co-payments, the combination of the new flat-rate premium, capped variable rate premium, and stakeholder co-payments results in a staggering premium increase for most plans . . . the practical impact is that these premium increases will likely add system-wide stress by adding large premium increases to plans that cannot afford them and burden healthy plans with the cost of insuring benefits in other plans that are not healthy, over which they have no control." The Grassley-Alexander Proposal offers no time or phase-in period for the system to adjust. If enacted, it will be devastating and will shock the system into total collapse. Strong companies will escape the system post-haste, while weak companies will declare bankruptcy. The collateral damage from the Grassley-Alexander Proposal will be millions of innocent workers and retirees and their communities, abandoned by their government and their elected representatives.

To make matters worse, a provision of the Grassley-Alexander Proposal allows healthy multiemployer pension plans to adopt so-called "composite" plan designs in total disregard of concerns raised by the Congressional Research Service ("CRS"). In a March 27, 2017 report, the CRS raised multiple concerns about the impact of composite plans on the multiemployer pension system including, lower funding for existing multiemployer plans, decreased withdrawal liability payments, the failure of composite plans to address existing multiemployer plans facing insolvency, and a reduction in future PBGC premium revenue. The CRS report is an indictment of composite plans and yet composite plans are included in the Grassley-Alexander Proposal, counter to the interests of the multiemployer pension system and PBGC.

Multiemployer pension plans did not blunder into this crisis. The roots of the current crisis lie in deregulation, trade policy, environmental regulation, anti-union animus, and de-industrialization, much of which was supported by Congress over the past 50 years. In fact, both the multiemployer pension system and the PBGC multiemployer insurance program were financially sound up until 2000. It took two devastating financial crises and a bout of extraordinary monetary policy

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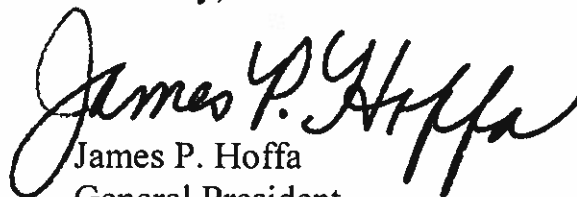
exercised by the Federal Reserve Bank that pushed interest rates toward zero, to break the multiemployer pension system. Further, it is noteworthy that PBGC did not even acknowledge that multiemployer pension plans had a problem until ten years ago.

Under the guise of limiting taxpayer funding, the Grassley-Alexander Proposal unfairly blames the multiemployer pension plan stakeholders for today's current funding crisis and offers punitive funding rules and extraordinary taxes on retirees, employers, and unions to fund its proposed partition program. And yet in 2018 and 2019 alone, Congress provided \$28 billion in trade war compensation payments to farmers, a disproportionate share of which was directed to large mega farms according to the American Enterprise Institute. Where is the taxpayer fairness here, and why aren't these Congressional actions to aid farmers labeled a "bailout"?

The authors of the Grassley-Alexander Proposal unfairly reject S.2254 based on a highly questionable analysis written by the Congressional Budget Office ("CBO") in a September 6, 2019 letter to Senator Enzi, titled, "Potential Effects of H.R. 397, for the Rehabilitation of Multiemployer Pensions Act of 2019". The IBT's concerns about the aforementioned CBO letter were outlined in a letter dated November 5, 2019 to Majority Leader Mitch McConnell. The IBT believes that the budgetary cost and the potential positive impact of S. 2254 have been misunderstood and miscommunicated, and that bill deserves a proper hearing and consideration by the U.S. Senate.

The 10 million Americans covered by the multiemployer pension system deserve Federal assistance and support in this time of need. These American workers, retirees and employers, through no fault of their own, face an existential crisis of great impact to their livelihoods. The clock is ticking. The longer Congress waits, the higher the human and financial costs will be. Congress needs to act as soon as possible to avoid the civil strife and societal consequences currently being experienced in nations like France and Chile. The beginning of the U.S. retirement crisis is here in the multiemployer pension plan dilemma.

Sincerely,



James P. Hoffa
General President