TAKING STOCK: IS HELP ON THE WAY FOR STRUGGLING MULTIEMPLOYER PENSIONS?

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BLOG POST

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A bill, on its way to the House and Senate, aims to provide financial assistance to struggling multiemployer defined benefit pension plans in the form of 30-year loans.

The Rehabilitation for Multiemployer Pension Act (HR397), also known as the Butch Lewis Act, was approved last month by the House Committee on Education and Labor. HR397 is expected to impact 10% of all multiemployer plans totaling 1.5 million participants, according to the Committee. Although its successful passage in the House and Senate faces significant headwinds, it is the only bill the Committee has passed despite many similar versions currently floating around in the Senate.

The bill would first establish an agency known as the Pension Rehabilitation Administration (PRA) within the Treasury Department. The Treasury will then issue bonds to fund loans approved under this program and cover the agency's operating expenses.

To qualify for a loan, a plan must be either in critical and declining status or insolvent. To be approved for a loan, a plan must (a) demonstrate that the loan will enable them to avoid or emerge from insolvency for at least the 30-year loan period, and (b) demonstrate that the plan will be able to make benefit payments and interest payments on the loan during the 30-year loan period and repay the loan principal.

The 30-year loan will consist of 29 annual interest payments with the principal due in year 30. The bill, in its current form, does not specify the interest rate that would be charged on the loan. The amount of the loan will be equal to the retiree liability at the time of the loan, that is, the present value of the amount expected to be paid out to retirees and beneficiaries.

During the loan period, plans are not allowed to increase benefits or reduce contributions. If a plan had suspended benefits or been approved for a suspension, the plan must reinstate suspended benefits and pay any suspended benefits retroactively. It's important to note that plans that have suspended benefits are required to apply for a loan under this program.

The investment choices for the loan proceeds will be limited. The assets must be invested in a cash-matching or duration-matching portfolio that consists of investment-grade bonds, Treasuries or US dollar-denominated sovereign bonds. Given these limitations, plans can expect to pay an interest rate lower than the Treasury yield on the bonds issued to fund the program. This excess return over the loan interest payments will be used to project a plan's ability to ultimately emerge from critical and declining status or insolvency over the 30-year loan period.

In case of loan defaults, plans can negotiate revised terms for repayment and the PRA may forgive a portion of the loan principal to avoid suspension of benefits. Due to limited details regarding interest rate and default provisions, the Congressional Budget Office

(CBO) has not issued a final cost of the legislation, but it estimates budget deficits would increase by $100 billion over the next 10 years.

While we believe the bill, in its present form, is unlikely to see the light of day in the House and Senate, we continue to monitor its fate. Stay tuned for further details.

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