Joint Select Committee Hears Differing Views on Multiemployer Pension Crisis

Witness Testimony Raises Dangerous "Discount Rate" Proposal

The Joint Select Committee held its fifth hearing on Wednesday, July 25, entitled, "How the Multiemployer Pension System Affects Stakeholders." Video of the hearing is available **on the Joint Select Committee website**.

The witnesses included a mix of perspectives:

- Kenneth Stribling, Retired Teamster
- Timothy Lynch, Senior Director Government Relations Practice, Morgan, Lewis, and Bockius LLP
- James Naughton, Assistant Professor and Donald P. Jacobs Scholar, Kellogg School of Management, Northwestern University
- Joshua Rauh, Director of Research and Senior Fellow, Hoover Institution, Stanford University

When the Joint Select Committee was established in February, it was required to hold at least five meetings. As we describe below, Wednesday's hearing was likely the last public hearing before Committee members begin negotiations for a bipartisan solution by the Committee's November 30 deadline. Participants can **visit the Fund's website** to tell their Members of Congress and the Joint Select Committee to take action this year on a solution that helps the AFM-EPF and other multiemployer pension funds like it.

The Need for Immediate Solutions

Mr. Stribling, a retired Teamster, shared his personal story with the Committee. He said that if his pension fund becomes insolvent, he will likely go bankrupt, lose his home and be unable to pay for mounting medical bills stemming from his wife's battle with pancreatic cancer. Members of the Committee pointed to Mr. Stribling's story as a reminder of what is at stake if Congress does not pass a solution, and that participants face this uncertainty through no fault of their own.

In his testimony, Mr. Lynch described his experience working with multiemployer pension funds and contributing employers. He focused his attention on the immediate crisis and the urgency of taking action now. He repeatedly advocated for the federal government to provide an infusion of cash to funds in "critical and declining" status, potentially through a loan program. Mr. Lynch emphasized that with every passing day, the multiemployer pension crisis becomes more difficult and costly to solve.

Change to "Discount Rate" Rules Would Threaten Multiemployer System

Mr. Naughton and Dr. Rauh spoke as academics. They traced the problems facing multiemployer pension funds to the federal government's rules about the way that multiemployer funds calculate the "present value" of liabilities. This "present value" can be described as the amount of money a fund needs to have now, assuming a specific rate of return on investments, in order to fulfill its full pension obligation to participants in the future. This assumed rate of return is called the "discount rate." **[1]**

These two witnesses argued that the discount rate used by multiemployer pension funds is flawed. They recommended that all multiemployer pension funds be required to use a more conservative discount rate—including those funds that are considered healthy under current funding rules. Mr. Naughton and Dr. Rauh stated that if a different discount rate was used in the past, then multiemployer pension funds would have been forced to promise lower benefits to participants and/or collect more employer contributions.

Mr. Naughton and Dr. Rauh's claims about the discount rate are not supported by the evidence and ignore the sound rationale behind the actuarial community's use of long-term investment expectations to determine the discount rate in multiemployer plans.

Even worse, their recommendations would destabilize the entire multiemployer system and cause great harm to the AFM-EPF. Most of the country's 1,400 multiemployer pension funds would be pushed into "critical" or "critical and declining" status. "Critical and declining" funds would be forced to apply for steeper benefit reductions than would otherwise be needed in order to make use of the Multiemployer Pension Reform Act (MPRA). Contribution increases would be unsustainable for many employers, causing bankruptcies and withdrawals.

Sen. Portman (R-OH) pressed Mr. Naughton on whether changing the discount rate would harm funds in "critical and declining" status. Mr. Naughton conceded that "it's simply not possible" to suddenly change the discount rate for these funds because it would be "debilitating."

Undermining the Case for Financial Relief

Mr. Naughton and Dr. Rauh assigned blame for the current crisis to fund trustees across the multiemployer system, stretching back decades. This testimony boosts the position of more skeptical Members of Congress who do not support any type of government loan program for troubled multiemployer pension funds. Mr. Naughton avoided giving a position on a loan program and Dr. Rauh argued against any kind of direct government support.

These accusations were met with frustration by some members of the Committee, who questioned how fund trustees could predict catastrophic events. Rep. Neal (D-MA) told Mr. Naughton, "You left out the recession and what that did to the retirement plans."

Joint Select Committee Begins Negotiations for a Solution

Several Democratic members urged Co-Chairs Sen. Orrin Hatch (R-UT) and Sen. Sherrod Brown (D-OH) to quickly turn the Committee's attention to the real work of producing a bipartisan solution, noting that time is running out before the Committee's deadline on November 30.

Sen. Hatch assured Committee members several times that he intends for the Committee to "face the music and do the job" of solving this crisis. Sen. Brown explained that staff for the members of the Joint Select Committee will meet throughout August, with a meeting for the members themselves planned for September to "get close to real solutions" and then make "finishing touches" by the end of November.

As noted above, we have now seen testimony from two individuals who think the government should do nothing or that it should make changes that would make the situation far worse for the AFM-EPF and the multiemployer community as a whole.

As the Joint Select Committee moves into its next phase, we must make clear to the Committee members that this is an unacceptable course of action. It is important now more than ever for participants to urge Committee members to come together on a bipartisan solution that helps multiemployer pension funds like the AFM-EPF—and that avoids doing more harm than good. AFM-EPF participants can **use the tools on the Fund website** to make their voices heard.

[1] *Actuaries for multiemployer pension funds generally use a discount rate based on the expected rate of return for that particular fund's investment strategy over an extended period of 50 years or more. Actuaries are required by law to "offer [their] best estimate of anticipated experience under the plan."*

American Federation of Musicians and
Employers' Pension Fund
PO Box 2673
New York, NY 10117-0262
www.afm-epf.org