April 9, 2020

The Honorable Mitchell McConnell
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker
United States House of Representatives
Washington, DC 20515

The Honorable Charles Schumer
Minority Leader
United States Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Minority Leader
United States House of Representatives
Washington, DC 20515

Re: Multiemployer Pension Relief Urgently Needed in Wake of COVID-19 Crisis

Dear Leader McConnell, Leader Schumer, Speaker Pelosi, and Leader McCarthy:

As a nation, we are facing an unprecedented public health emergency with the COVID-19 crisis. The economy is reeling, and Congress is taking vital action to provide relief where it is most needed. As Congress continues to develop its stimulus packages to help those hardest hit by this crisis, we urge lawmakers to pass relief for multiemployer pension plans.

As Senate and House leadership understand, the multiemployer pension system was already in dire need of federal relief. Before the COVID-19 crisis, some 130 plans covering over 1.4 million workers, retirees, and beneficiaries were projected to become insolvent. With these insolvencies, the Pension Benefit Guaranty Corporation (PBGC) is projected to exhaust the assets in its multiemployer insurance program in 2025. Without Congressional action, these insolvencies will result in hard-earned pensions being cut to pennies on the dollar, which would in turn have catastrophic economic effects, both locally and nationally.

As described in this letter, the current COVID-19 crisis will no doubt exacerbate the challenges already facing the multiemployer pension system and the people who rely on it. We implore Congress to take this opportunity to provide assistance to plans that were already facing projected insolvency, as well as those that will not be able to recover from the economic fallout caused by the COVID-19 crisis.

Also, while the focus may be on the significant minority of deeply troubled multiemployer plans, it is important to understand that the majority of multiemployer pension plans will not need financial assistance from the federal government to remain solvent. These plans, however, will
need a temporary relaxation of statutory funding requirements, to enable them more time to recover from recent declines in financial markets and economic activity. As described in more detail in this letter, Congress provided funding relief to multiemployer plans following the financial market collapse of 2008, so the legislative framework already exists.

**Background on Segal**

Segal is a major provider of actuarial and employee benefits consulting services to plan sponsors and employee benefit plans throughout the United States. Since our founding in 1939 as the Martin E. Segal Company, Segal has been involved in developing retirement programs to meet the needs of employees and employers. We are recognized experts on multiemployer pension plans.

Segal has assisted in the establishment and operation of numerous national, regional, local and industry-wide multiemployer pension plans. These activities have aided employees and employers in industries such as entertainment, apparel, healthcare, food, transportation and construction. Segal continues to serve the multiemployer community by providing actuarial services to more multiemployer pension plans than any other consulting firm.

As a member of the multiemployer pension plan community, Segal understands the importance of the work of Congress in crafting legislative solutions that address the short-term and long-term issues facing multiemployer pension plans, as well as those facing PBGC.

**Multiemployer Pension Solvency Crisis**

As described earlier, a minority of multiemployer pension plans were already facing a solvency crisis, before COVID-19. To summarize the existing solvency crisis, we cite our letter to the Joint Select Committee on Solvency of Multiemployer Pension Plans, dated June 21, 2018:

Currently, about 130 multiemployer pension plans are projected to become insolvent within 20 years. Many of these plans will run out of money within the next 10 years. In addition, the Pension Benefit Guaranty Corporation’s (PBGC) multiemployer program is expected to become insolvent in 2025 after which it will only be able to pay an eighth or less, on average, of the current guarantee for insolvent multiemployer plans. 1 Absent corrective action, over one million workers, retirees, and beneficiaries will see their hard-earned pension benefits drop to less than $150 a month and, in many cases, an even lower monthly amount.

In November 2019, Senators Chuck Grassley and Lamar Alexander, chairs of the Senate Finance and Senate Health, Education, Labor and Pensions Committees, respectively, released a proposal to address the existing multiemployer pension solvency crisis. The proposal

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1 Testimony of the Honorable W. Thomas Reeder, then-Director of PBGC, before the Joint Select Committee on Solvency of Multiemployer Pension Plans, hearing on “The Structure and Financial Outlook of the Pension Benefit Guaranty Corporation,” May 17, 2018, pages 6, 9, 12, and 13.
included a liability removal program to be administered by PBGC, which would enable distressed plans to remain solvent. The cost of this liability removal program was estimated to be between $4.5 billion to $5.0 billion annually.2

The exact impact of the COVID-19 crisis on multiemployer pension plans, both over the short term and long term, is difficult to predict. We do know that plans will have to make up for investment losses on plan assets they have incurred so far in 2020. We also know that most plans will have weakened contribution bases as the economy recovers—though individual plans will fare differently, depending largely on their underlying industry.

Using publicly available information, we have modeled the potential impact of the COVID-19 crisis on the existing multiemployer pension solvency crisis. Our analysis considered both investment losses and reductions in contribution income. Depending on the severity and duration of the COVID-19 crisis, we estimate that as many as 180 additional plans could face projected insolvency in the next 20 years. That would bring the total number of plans in critical and declining status to over 300, covering over 2.5 million workers, retirees, and beneficiaries. In this scenario, the cost of providing financial assistance to enable all these plans to remain solvent would significantly exceed the pre-crisis range of $4.5 billion to $5.0 billion annually.3

Financially-Stable Plans

While there were significant investment losses in the first quarter of 2020, it is important to keep in mind that 2019 was a strong year for investments. It is also important to keep in mind that experience has shown that financial markets usually bounce back after severe downturns.

Barring a prolonged economic downturn, we expect the majority of multiemployer pension plans will be resilient and recover from the impact of the COVID-19 crisis. These financially-stable plans, however, will need temporary relief with regard to statutory funding requirements to provide them the extra time they need to recover.

Following the financial market collapse of 2008 and the following Great Recession, Congress passed two bills providing relief to multiemployer plans. The first, the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA ’08), permitted multiemployer plans to “push the pause button” and use their prior year zone status certification to the current plan year. WRERA ’08 also permitted plans in endangered or critical status to extend their recovery periods. The second bill, the Pension Relief Act of 2010 (PRA ’10) permitted eligible plans to recognize investment losses from 2008 and 2009 over a longer period of time.

In total, WRERA ’08 and PRA ’10 provided much-needed relief to multiemployer pension plans. They allowed more time for plan sponsors to develop corrective action plans to restore plan

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2 For example, a December 6, 2019 letter from the National Coordinating Committee for Multiemployer Plans (NCCMP) to Senators Grassley and Alexander cited an estimated annual cost of $4.7 billion.

3 This analysis was based on data from Form 5500 filings for all multiemployer plans, for plan years ending in 2018.
funding levels, as well as for the financial markets to recover. These bills also allowed more time for plans to meet their required funding benchmarks, thus lessening the severity of the corrective actions needed.

While the exact impact of the COVID-19 crisis on multiemployer pension plans is unknown, we urge Congress to take advantage of the framework it has already established with WRERA '08 and PRA '10. Similar measures would significantly benefit multiemployer pension plans that will be able to recover from this crisis on their own, but which will need more time to do so. Passing such relief now will also provide some level of certainty and flexibility to plan sponsors, as they begin to develop new action plans to keep their plans financially stable.

Considerations for Potential Relief and Reforms

We understand that as Congress considers solutions to address the multiemployer pension solvency crisis, it may also consider measures to prevent another crisis from arising in the future. We understand that Congress may decide to pass reforms to the overall multiemployer pension system after it addresses the current solvency crisis, or it may seek to design a comprehensive package that includes both immediate relief and long-term reforms.

The following are important considerations for lawmakers as they develop an effective and appropriate solution for the multiemployer pension system. Some of the following points were described in more detail earlier in this letter.

- **The multiemployer pension system is a significant part of the U.S. economy.** In total, there are about 1,250 multiemployer pension plans covering 10.8 million workers, retirees, and beneficiaries. As of 2018, there were nearly 3.8 million retirees and beneficiaries receiving pensions from these plans, with annual benefits totaling $44 billion. These pension checks are vitally important to the economic security of these individuals, who in turn contribute to local economies. A January 2019 study by the National Institute on Retirement Security estimated that each $1.00 of multiemployer pension payments supports $2.13 of total economic output.\(^4\)

- **The current solvency crisis needs immediate attention.** Legislative action is needed in 2020. Delaying legislation until 2021 or later will increase the annual cost of the program to restore distressed plans to solvency, or it may result in the program being unviable altogether.

- **The economic impact of the COVID-19 crisis will worsen the multiemployer solvency crisis.** The exact impact of the COVID-19 crisis on the multiemployer system is not yet known, but we expect it will increase the number of plans needing financial assistance—perhaps significantly. Depending on the severity and duration of the impact

of the COVID-19 crisis on multiemployer plans, we estimate the number of plans in critical and declining status could grow from around 130 to over 300.

- **The solution should include significant federal funding.** Legislation and regulations have contributed to the current multiemployer solvency crisis. Also, as highlighted in recent reports and testimonies, allowing troubled plans to fail would have an adverse economic impact that would far exceed the cost of keeping them solvent. For these reasons, federal funding must play a significant role in fixing the multiemployer solvency crisis.

- **Reforms for the multiemployer system must be balanced and practical.** If Congress considers changes to funding standards for multiemployer plans, it is critically important that these changes do not cause undue harm to the system. As detailed in our June 21, 2018 letter to the Joint Select Committee, imposing single-employer funding rules on multiemployer plans would have severely adverse effects on all stakeholders in the system: workers, retirees, beneficiaries, employers, PBGC, and taxpayers. In short, poorly designed funding reforms could force employer withdrawals and bankruptcies, which would push more plans toward insolvency and increase liabilities on PBGC and taxpayers.

- **Temporary funding relief will be needed.** Barring a prolonged economic downturn, we expect that most multiemployer plans will be able to recover without federal financial assistance. These plans, however, will benefit from temporary relief from statutory funding requirements, allowing them more time to implement their recovery plans. The relief bills Congress passed following the financial market collapse of 2008 (WRERA ’08 and PRA ’10) provide an appropriate framework for the relief that will be needed following the COVID-19 crisis.

**Closing**

For many years now, Congress has been aware of the solvency crisis facing the multiemployer pension system. This solvency crisis will no doubt be worsened by the COVID-19 crisis that has shocked the U.S. health care system and economy. We urge Congress to take action now to address the multiemployer solvency crisis before it is too late. It is also critically important that any broader reforms to the multiemployer pension system are crafted in a manner that actually strengthen the system and avoid unintended adverse consequences.

Segal understands the deep and complex history of multiemployer pension plans. We have been on the forefront, then and now, in developing innovative approaches to assist multiemployer plans in challenging times. Segal stands ready to assist Congress in its vital role

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in crafting effective and appropriate legislative solutions to address the multiemployer solvency crisis and to strengthen the system for future generations.

Sincerely yours,

[Signature]
David Blumenstein
President and Chief Executive Officer

[Signature]
Joseph A. LoCicero
Chairman

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David B. Brenner
Senior Vice President and
National Director of Multiemployer Consulting

cc: Chairman Chuck Grassley, Senate Committee on Finance
    Ranking Member Ron Wyden, Senate Committee on Finance
    Chairman Lamar Alexander, Senate Committee on Health, Education, Labor, and Pensions
    Ranking Member Patty Murray, Senate Committee on Health, Education, Labor, and Pensions
    Chairman Bobby Scott, House Committee on Education and Labor
    Ranking Member Virginia Foxx, House Committee on Education and Labor
    Chairman Richard Neal, House Committee on Ways and Means
    Ranking Member Kevin Brady, House Committee on Ways and Means