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FISCAL CHALLENGES FACING THE PENSION BENEFIT GUARANTY CORPORATION: IMPLICATIONS FOR PENSION PLANS, WORKERS, AND RETIREES

HEARING

BEFORE THE

SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR, AND PENSIONS

COMMITTEE ON EDUCATION AND THE WORKFORCE

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

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FISCAL CHALLENGES FACING THE PENSION BENEFIT GUARANTY CORPORATION: IMPLICATIONS FOR PENSION PLANS, WORKERS, AND RETIREES

Wednesday, November 29, 2017
House of Representatives,
Subcommittee on Health,
Employment, Labor, and Pensions,
Committee on Education and the Workforce,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 2175, Rayburn House Office Building, Hon. Tim Walberg (chairman of the subcommittee) presiding.

Present: Representatives Walberg, Roe, Rokita, Allen, Mitchell, Smucker, Ferguson, Estes, Foxx, Sablan, Wilson of Florida, Norcross, Blunt Rochester, Shea-Porter, Espaillat, Courtney, Fudge, and Bonamici.

Also present: Representatives Brat, Grothman, and Scott.

Staff present: Andrew Banducci, Workforce Policy Counsel; Marty Boughton, Deputy Press Secretary; Courtney Butcher, Director of Member Services and Coalitions; Michael Comer, Press Secretary; Rob Green, Director of Workforce Policy; Callie Harman, Professional Staff Member; Amy Raaf Jones, Director of Education and Human Resources Policy; Nancy Locke, Chief Clerk; Kelley McNabb, Communications Director; James Mullen, Director of Information Technology; Alexis Murray, Professional Staff Member; Krisann Pearce, General Counsel; Brandon Renz, Staff Director; Molly McLaughlin Salmi, Deputy Director of Workforce Policy; Olivia Voslow, Legislative Assistant; Joseph Wheeler, Professional Staff Member; Lauren Williams, Professional Staff Member; Michael Woeste, Press Secretary; Tylease Alli, Minority Clerk/Intern and Fellow Coordinator; Christine Godinez, Minority Labor Policy Associate; Ron Hira, Minority Labor Policy Fellow, Stephanie Lalle, Minority Digital Press Secretary; Kevin McDermott, Minority Senior Labor Policy Advisor; Richard Miller, Minority Labor Policy Director; Udochi Onwubiko, Minority Labor Policy Counsel; and Veronique Pluviose, Minority Staff Director.

Chairman WALBERG. A quorum being present, the Subcommittee on Health, Employment, Labor, and Pensions will come to order.

Good morning and welcome to today's subcommittee hearing on the financial challenges facing the Pension Benefit Guaranty Cor-

poration and, more importantly, the impact to workers and retirees.

George Miller was a proud liberal lion of this committee. While we very often disagreed in the years that I served with him on this committee, I admired his commitment to ensuring Americans have the ability to retire with dignity.

In 2014, he worked with John Kline, then our chairman, to try to solve a real problem: a retirement system on the brink of collapse. They put politics aside, worked with employers and labor unions, and negotiated a set of reforms to the multiemployer pension system in order to preserve benefits for millions of workers. President Obama signed this bipartisan approach into law in 2014.

The law was based on the premise that the plan trustees, who have a legal and moral obligation to pensioners and workers, would have the ability to take early action in order to avoid disaster.

While the 2014 statute was an important step, regulations written by President Obama's Treasury Department implementing the law made it difficult, if not impossible, for trustees to use the tools the law contains. And so, the problems continue.

We know they persist because the Pension Benefit Guaranty Corporation, the backstop for private defined benefit plans, released its annual report 2 weeks ago. According to PBGC, more than 100 multiemployer plans are expected to fail, in addition to the 72 that already have.

This kind of widespread collapse will directly impact the millions of workers, retirees, and their families who spent their careers planning their retirement with these promised pension benefits in mind.

And who promised these benefits? Unions and employers who established and administered these plans. The Federal Government and nonunion workers had no role in negotiating the contracts that made the promises that will be broken.

Mr. Miller, when he chaired the committee, recognized this. That's why this committee, under his leadership in 2009, refused to advance a legislative proposal to put taxpayers on the hook for these promises.

Implementation of the 2014 law has been ineffective, and the workers and retirees in these plans are worse off because of it. When their plans fail, their benefits will be cut, in many cases significantly. And when these retirement systems fail, the PBGC will collapse as well.

The agency's multiemployer insurance program currently has about $2 billion in assets, receives less than $300 million in premium revenue annually, and has a long-term deficit of $65.1 billion. Again, that's $65 billion.

When the money runs out, likely sometime in 2025, pensioners will receive pennies on the dollar of what they were promised, employers will close their doors, and previously healthy plans may go bankrupt.

Congress took bipartisan action just 3 years ago to prevent this looming disaster. We believe the Trump administration will work hard to ensure the law's tools are utilized more appropriately. But if Congress is to consider further reforms, it's critical that the com-

mittee fully understand the scope of the financial challenges facing PBGC no matter how dire they are.

Today's witness, Tom Reeder, is the PBGC's Director. He administers not just the multiemployer insurance program, but also the agency's very large insurance program for single employer defined benefit plans.

While the finances of that program are trending upward, it is still underfunded by nearly $11 billion. The program ensures more than 27 million Americans in more than 22,000 pension plans. We look forward to examining that program in today's hearing as well.

There are no easy answers to these problems, but we owe it to workers, retirees, employers, and taxpayers to put politics aside, as we've done in the past, and work toward finding a fiscally responsible, bipartisan solution. Millions of Americans are counting on us.

Before I yield to Ranking Member Sablan for his opening remarks, I want to yield to Chairwoman Foxx for a brief comment.

[The prepared statement of Chairman Walberg follows:]

Prepared Statement of Hon. Tim Walberg, Chairman, Subcommittee on Health, Employment, Labor and Pensions

George Miller was a liberal lion of this Committee. While we very often disagreed, I admired his commitment to ensuring Americans have the ability to retire with dignity.

In 2014, he worked with John Kline, then our Chairman, to try to solve a real problem: a retirement system on the brink of collapse. They put politics aside, worked with employers and labor unions, and negotiated a set of reforms to the multiemployer pension system in order to preserve benefits for millions of workers. President Obama signed this bipartisan approach into law in 2014.

The law was based on the premise that the plan trustees who have a legal and moral obligation to pensioners and workers should have the ability to take early action in order to avoid disaster.

While the 2014 statute was an important step, regulations written by President Obama's Treasury Department implementing the law made it difficult if not impossible for trustees to use the tools the law contains. And so, the problems continue. We know they persist because the Pension Benefit Guaranty Corporation, the backstop for private defined benefit plans, released its annual report 2 weeks ago. According to PBGC, more than 100 multiemployer plans are expected to fail, in addition to the 72 that already have.

This kind of widespread collapse will directly impact the millions of workers, retirees, and their families who spent their careers planning their retirement with these promised pension benefits in mind. And who promised these benefits? Unions and employers who established and administered these plans. The Federal Government and non-union workers had no role in negotiating the contracts that made the promises that will be broken. Mr. Miller, when he chaired this Committee, recognized this. That's why this Committee, under his leadership in 2009, refused to advance a legislative proposal to put taxpayers on the hook for these promises.

Implementation of the 2014 law has been ineffective, and the workers and retirees in these plans are worse off because of it. When their plans fail, their benefits will be cut, in many cases significantly. And when these retirement systems fail, the PBGC will collapse as well.

The agency's multiemployer insurance program currently has about $2 billion in assets, receives less than $300 million in premium revenue annually, and has a long term deficit of $65.1 billion. Again, that's $65 billion. When the money runs out, likely sometime in 2025, pensioners will receive pennies on the dollar of what they were promised. Employers will close their doors, and previously healthy plans may go bankrupt.

Congress took bipartisan action just 3 years ago to prevent this looming disaster. We believe the Trump administration will work hard to ensure the law's tools are utilized more appropriately. But if Congress is to consider further reforms, it's critical that the Committee fully understand the scope of the financial challenges facing PBGC.

Today's witness, Tom Reeder, is the PBGC's director. He administers not just the multiemployer insurance program, but also the agency's very large insurance pro-

gram for single-employer defined benefit plans. While the finances of that program are trending upward, it is still underfunded by nearly $11 billion. That program insures more than 27 million Americans in more than 22,000 pension plans. We look forward to examining that program in today's hearing as well.

There are no easy answers to these problems. We owe it to workers, retirees, employers and taxpayers to put politics aside and work toward finding a fiscally responsible, bipartisan solution. Millions of Americans are counting on us.

Ms. FOXX. Thank you, Mr. Chairman.

I want to take a moment to recognize a member of our staff, Andy Banducci, who is leaving the committee to pursue a new opportunity across the Capitol as labor policy director for the Senate Committee on Health, Education, Labor, and Pensions.

Andy has been a valued member of our team since 2011, most recently as the committee's work force policy counsel. He's been at the forefront of our efforts to help America's workers save for retirement, modernize the multiemployer pension system, preserve access to affordable retirement advice, and to expand access to affordable healthcare for all.

Over the years, Andy worked diligently in support of our committee's work force policy agenda and has helped us to advance important legislative initiatives, including, most notably, as Chairman Walberg just talked about, the bipartisan Multiemployer Pension Reform Act of 2014.

I know all our current and former committee colleagues would agree, Andy has always provided us with wise counsel and important technical expertise. Many of our successes would not have been possible without his commitment, hard work, and positive demeanor.

Andy, on behalf of myself and the members of the committee, thank you for the time and devotion you've put into doing the people's work. Of course, we know we'll have an opportunity to stay in touch, and we wish you all the best as you embark on this new chapter in your congressional career. God bless you.

Mr. SCOTT. Will the gentlelady yield?

Ms. FOXX. Yes, I will.

Mr. SCOTT. Thank you.

Mr. Chair, I want to join in the best wishes to Andy. The chairwoman has indicated that our staffs work very well together even on issues where there's disagreement, and that's so important in getting good legislation passed. Andy has been a constructive staffer and will be missed.

I want to join in the congratulations of the chairwoman and wish you well.

I yield back.

[Applause.]

Chairman WALBERG. And, Andy, I too want to echo the same sentiments, though I would alter a bit. I know you're taking a lateral transfer, but we know that you will give great benefit to that other body with truth and clarity that maybe they've been lacking for quite some time.

I also want to add an additional point, that while you have done this with all good humor and support and optimism, positive in moving forward and giving us good counsel, you've also been very good at telling me no. And sometimes the best thing you can hear

from good counsel is no, so you have a chance then to understand what is actual truth and what we can and can't do and how we need to move forward.

So I too, Andy, would say thank you for your service. It has been invaluable.

We are blessed in this committee that there will be other staff that follow you that will do excellent work, it just happens with this committee and subcommittee. So we're not worried about that. But they'll have to prove themselves. You did. God bless you as you move forward.

Now I yield to my ranking member, a good friend and colleague, Representative Sablan.

Mr. SABLAN. Thank you, Mr. Chairman.

And good morning, everyone.

Let me start also by recognizing and thanking Mr. Andy Banducci, who is departing the majority committee staff this week. Andy has honorably served the committee for 6–1/2 years and has played a leadership role on several important retirement security issues.

On behalf of all of your friends, Andy, the Democratic subcommittee members and their staff, friends all to you, I want to thank you and wish you well as you transition to the Senate. Just don't forget to recognize House Members when you're Senate staff.

I want to express my thanks to Chairman Walberg. Since I became ranking member, we have sought common ground on ways we can help Americans retire with financial security. Last month, we introduced legislation that updates a two-decade-old standard for automatic IRA rollovers. And in May, we conducted a subcommittee hearing where there was a fair amount of consensus on practical retirement security solutions.

At the conclusion of that hearing, I noted how the multiemployer pension system and the looming insolvency of the Pension Benefit Guaranty Corporation, or PBGC, demands our immediate attention. So I appreciate Chairman Walberg's willingness to convene today's hearing.

Welcome, Director Reeder. I enjoyed meeting with you yesterday. I look forward to your testimony.

I'd also like to recognize some of the members of the miners, Teamsters union, who also, some of you, came to my office yesterday.

Mr. Chairman, it is clear the multiemployer pension program remains in significant financial distress. As the PBGC's 2017 annual report notes, the multiemployer pension program has $2 billion in assets to cover $67 billion in liabilities. That's a deficit of $65 billion, up from $59.8 billion last year, and an all-time high. The PBGC also estimated that unless Congress acts, the multiemployer pension program is likely to run out of money by the end of 2025. That's the present estimate.

We have to focus on the biggest cost of the crisis: the looming failure of a few very large multiemployer pension plans. If Congress works together to help these failing plans, we can go a long way toward improving PBGC's financial outlook.

Several of my subcommittee colleagues and I recently cosponsored Congressman Neal's legislation that proposes a solution to

prevent troubled multiemployer plans from failing while safeguarding retirees' hard-earned pensions. I will be interested to hear Director Reeder's thoughts on Mr. Neal's bill.

The bottom line is that Congress must address the multiemployer pension crisis, and we must act soon.

As we proceed, I believe we should be guided by the simple principle that it is not the fault of the workers or the retirees that their pension plan is on the brink of insolvency. These Americans worked a lifetime and earned their pension. American workers don't want a bailout. They just want the pension promise that was made to them to be upheld.

We must also keep in mind that the costs and consequences of inaction are enormous and the consequences will be devastating. Impacted retirees could see catastrophic reductions to their pension benefit, as high as 90 percent. Governments will see reduced tax revenues from impacted pensioners. There will likely be significantly increased social safety net spending. Employers throughout the multiemployer system will be impacted. Some may have to file bankruptcy, while others may have a worsened financial outlook due to having absorbed additional pension liability. The economic fallout will touch most all of our congressional districts.

Today's hearing should provide subcommittee members an understanding of the scope and magnitude of the multiemployer pension crisis. And more importantly, Mr. Chairman, today's hearing should underscore the urgency for Congress to take responsible action to prevent the foreseeable collapse of the multiemployer pension program. I hope that we can do that sooner, rather than wait until the last minute, and I'm hopeful we will do that.

With that, Mr. Chairman, I want to thank you again for convening today's hearing, and I yield back my time.

[The prepared statement of Mr. Sablan follows:]

Prepared Statement of Hon. Gregorio Kilili Camacho Sablan, Ranking Member, Subcommittee on Health, Employment, Labor and Pensions

Thank you, Mr. Chairman. Good morning.

I want to start by recognizing and thanking Andy Banducci, who is departing the Majority Committee staff this week. Andy has honorably served the Committee for six and a half years and has played a leadership role on several important retirement security issues. On behalf of all the Democratic Subcommittee Members and our staff, I want to thank Andy and wish him well as he transitions to the Senate.

I also want to express my thanks to Chairman Walberg. Since I became Ranking Member, we have sought common ground on ways we can help Americans retire with financial security. Last month, we introduced legislation that updates a two-decade old standard for automatic IRA rollovers. And in May, we conducted a Subcommittee hearing where there was a fair amount of consensus on practical retirement security solutions. At the conclusion of that hearing, I noted how the multiemployer pension system and the looming insolvency of the Pension Benefit Guaranty Corporation—or PBGC—demands our immediate attention. So I appreciate Chairman Walberg's willingness to convene today's hearing.

Welcome, Director Reeder. I enjoyed meeting with you yesterday and I look forward to your testimony.

Mr. Chairman, it is clear the multiemployer pension program remains in significant financial distress. As the PBGC's 2017 annual report notes, the multiemployer pension program has $2 billion in assets to cover $67 billion in liabilities. That's a net deficit of $65 billion—up from $58.8 billion last year and an all-time high. The PBGC also estimated that, unless Congress acts, the multiemployer pension program is likely to run out of money by the end of 2025.

We have to focus on the biggest cause of the crisis: the looming failure of a few very large multiemployer pension plans. If Congress works together to help these failing plans, we can go a long way toward improving PBGC's financial outlook.

Several of my Subcommittee colleagues and I recently co-sponsored Congressman Neal's legislation that proposes a solution to prevent troubled multiemployer plans from failing while safeguarding retirees' hard-earned pensions. I will be interested to hear Director Reeder's thoughts on Mr. Neal's bill.

The bottom line is that Congress must address the multiemployer pension crisis and we must act soon.

As we proceed, I believe we should be guided by the simple principle that it is not the fault of the workers or the retirees' that their pension plan is on the brink of insolvency. These Americans worked a lifetime and earned their pension. American workers don't want a bailout, they just want the pension promise that was made to them to be upheld.

We also must keep in mind that the costs and consequences of inaction are enormous and the consequences will be devastating. Impacted retirees would see catastrophic reductions to their pension benefit, as high as 90 percent. Governments will see reduced tax revenues from impacted pensioners; there would likely be significantly increased social safety net spending. Employers throughout the multiemployer system will be impacted. Some may have to file bankruptcy, while others may have a worsened financial outlook due to having to absorb additional pension liability.

The economic fallout will touch most all of our congressional districts.

Today's hearing should provide Subcommittee Members an understanding of the scope and magnitude of the multiemployer pension crisis.

But more importantly, today's hearing should underscore the urgency for Congress to take responsible action to prevent the foreseeable collapse of the multiemployer pension program.

I am hopeful we will do that.

With that, Mr. Chairman, I want to thank you again for convening today's hearing and I yield back the balance of my time.

Chairman WALBERG. I thank the gentleman.

Pursuant to Committee Rule 7(c), all members will be permitted to submit written Statements to be included in the permanent hearing record. And without objection, the hearing record will remain open for 14 days to allow such Statements and other extraneous material referenced during the hearing to be submitted for the official hearing record.

It's now my pleasure to introduce our distinguished witness. Mr. Tom Reeder was confirmed as the Director of the PBGC in 2015. Prior to joining PBGC, he practiced employee benefits law at private firms. Following private practice, he joined the Treasury Department, where he rose to the position of benefits tax counsel in 2005. In 2009 he started serving on the staff of Senate Finance Committee Chairman Baucus and then joined the IRS in 2013.

[Witness sworn.]

Chairman WALBERG. Before I recognize the Director to provide your testimony, let me briefly explain our lighting system. I think you know the lighting system, so I won't go through the script here. It is a system that we generally follow on the road. Green, go; yellow, start to stop; and red, stop.

We want to hear your full testimony, though we have your full testimony in written form, and then after that have the opportunity for our committee here to ask questions. So we welcome you and thank you for your testimony.

STATEMENT OF THE HONORABLE W. THOMAS REEDER, JR., DIRECTOR, PENSION BENEFIT GUARANTY CORPORATION (PBGC), WASHINGTON, DC

Mr. REEDER. Thank you, Chairman Walberg, Ranking Member Sablan, and members of the subcommittee. I very much appreciate the opportunity to appear before you today to discuss the key challenges that PBGC faces. As you mentioned, my full testimony has been submitted, so I'll focus on the most pressing issue facing us today.

Congress established the PBGC in 1974 as part of ERISA to provide basic protection for participants' benefits in defined benefit pension plans. Under ERISA, PBGC insures plans without regard to their financial situation. Today, PBGC insures benefits for nearly 30 million people in the single-employer program and about 10 million people in the multiemployer program.

While each program protects pension benefits when plans fail, the guarantees, the premiums, and other features differ significantly. By law, the assets of one program can't be used to pay benefits under the other.

Both programs have been in deficit for about 15 years. However, the financial condition of the single-employer program, as the chairman noted, has been steadily improving, but the multiemployer program is in dire straits and getting worse.

As of September 30, the single-employer program had liabilities of $117 billion and assets of $106 billion. So there's still an $11 billion deficit. Our projections show that will improve, but it's not a certainty.

By contrast, as the chairman noted, we have $67 billion in liabilities in the multisystem and only $2 billion in assets. That's a $65 billion deficit, and it's likely to become worse. And we project that the program will be insolvent—more likely than not to be insolvent by the end of 2025.

That's due to many factors—financial, economic, and demographic—and the recession of 2008–2009 amplified the effects of each of these factors. As a result, the funded status of the multiemployer program fell below 50 percent after the 2008 crisis. Many plans have recovered, but about 10 percent of them didn't and probably will not recover.

So today the multiemployer program faces an unprecedented level of plan failures. Over 100 multiemployer plans with more than a million participants have already reported to their participants that they expect to fail within the next two decades.

PBGC, our financial Statement with some of these plans already on our balance sheet reflects the serious underfunding of these critical and declining multiemployer plans. Our Projections Report shows that this underfunding is likely to increase our deficit as the years come. And as I mentioned, we are likely to be insolvent by the end of 2025.

With PBGC's multiemployer funds exhausted, when and if they get exhausted, the only money available to pay plans—or benefits under plans—will be the annual premium revenue that we collect, which is now a little over $200 million a year, and it's projected to grow to $400 million a year. So we're paying billions of dollars in obligations with millions of dollars of income.

Multiemployer guarantees are already very, very low compared to the single-employer program. And so a failure of the PBGC's multiemployer program will result in those low guarantees becoming even lower, much lower. Right now, if you have 30 years of service, your guarantee level is a little under $13,000. That compares to the single-employer program where your guarantee, regardless of your service, is more like $64,000. So one of them is livable and the other one is not quite livable. Cuts of this size are catastrophic to participants.

We will continue to work with the administration, with Congress, and the multiemployer plan community that includes both participants and the plans themselves to address this problem. And I look forward to addressing your specific issues in the coming few moments.

Thank you.

[The prepared statement of Mr. Reeder follows:]

Testimony of

THE HONORABLE W. THOMAS REEDER

DIRECTOR

PENSION BENEFIT GUARANTY CORPORATION

before the

HOUSE COMMITTEE ON EDUCATION AND THE WORKFORCE
SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR, AND PENSIONS

Hearing

"Financial Challenges Facing the Pension Benefit Guaranty Corporation: Implications for Pension Plans, Workers, and Retirees"

November 29, 2017

Chairman Walberg, Ranking Member Sablan, Members of the Subcommittee.

Thank you for the opportunity to appear before you today to discuss the Pension Benefit Guaranty Corporation (PBGC) and the challenges it faces in protecting pensions of American workers.

PROTECTING PENSIONS

Every American worker should have access to a secure retirement. A vital part of that security for nearly 40 million private-sector workers, retirees, and beneficiaries comes from traditional defined benefit pension plans. PBGC's mission is to protect the lifetime retirement income that comes from those plans when employers can no longer afford them. Without PBGC, more than two million participants and beneficiaries in about 5,000 plans that have failed since PBGC was established might have lost the pensions they earned for years of work.

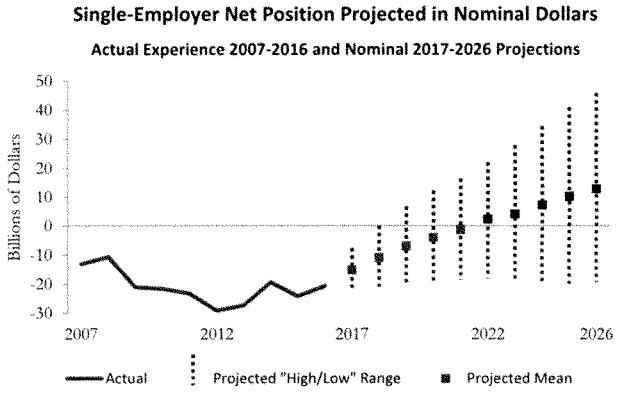
Congress established PBGC as part of the Employee Retirement Income Security Act of 1974 (ERISA). By law, PBGC is self-financed and receives no taxpayer money. PBGC is administered by a Director. PBGC has a three-member Board of Directors consisting of the Secretary of Labor, who is Board Chair, and the Secretaries of the Treasury and Commerce.

PBGC operates two separate insurance programs: one for single-employer plans and one for multiemployer plans (collectively bargained plans with more than one employer). While each program is designed to protect participants' pension benefits when plans fail, they differ significantly in the level of benefits guaranteed, how the guarantee is provided, the event that triggers payment of the guarantee, and premiums paid by insured plans. By law, the two programs are financially separate. Assets of one program may not be used to pay obligations of the other.

Both programs have been in a deficit position for fifteen years or longer, meaning that, for each of our two insurance programs, assets are less than liabilities. While the financial condition of the Single-Employer Program has been improving, the financial condition of the Multiemployer Program is dire and without action will be worse.

As of September 30, 2017, the Single-Employer Program had liabilities of $117.1 billion and assets of $106.2 billion, resulting in a $10.9 billion deficit, down from a $20.6 billion deficit at the end of FY 2016. Continued improvement in the Single-Employer Program is projected but not a certainty. PBGC's FY 2016 Projections Report shows that the Single-Employer Program will no longer be in a deficit position by the year 2022 (see Figure 1 below).[1]

Figure 1.



In sharp contrast, the Multiemployer Program had liabilities of $67.3 billion and assets of only $2.3 billion, resulting in a $65.1 billion deficit. PBGC's FY 2016 Projections Report shows a projected 2026 mean present value deficit of about $78 billion (in nominal dollars) in the Multiemployer Program, even assuming that some plans use benefit suspensions and partitions under the Multiemployer Pension Reform Act of 2014 (MPRA) to avoid insolvency (see Figure 2 below).

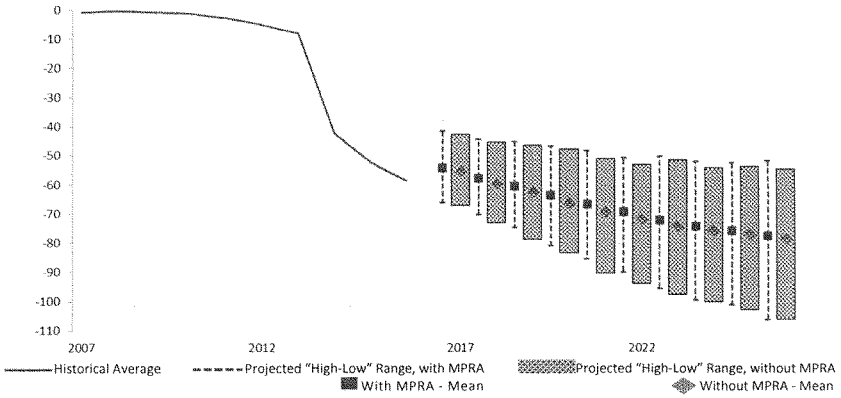
[1] PBGC uses stochastic modeling that produces a probability distribution of potential outcomes for the future financial condition of PBGC's two insurance programs. The FY 2016 Projections Report continues to show a wide range of potential outcomes.

Figure 2.

Multiemployer Program Net Position

Reflecting Assumed MPRA Suspensions / Partitions

Historical Experience 2007-2016 and Nominal 2017-2016 Projections



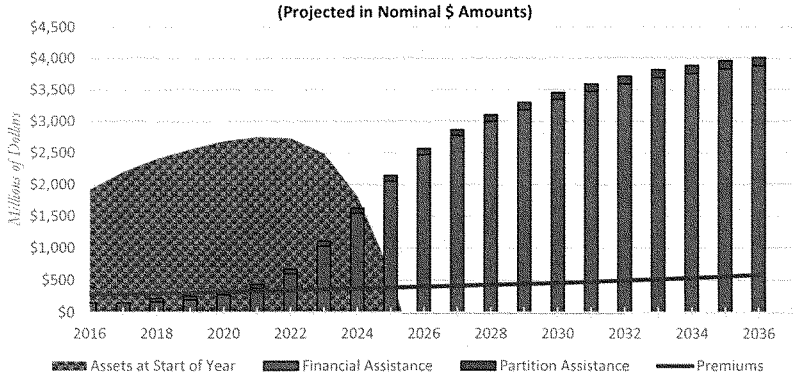
The assets and income of PBGC's Multiemployer Program are only a small fraction of the amounts PBGC will need to support the guaranteed benefits of participants in plans expected to become insolvent during the next decade. Projections show that the Program is likely to become insolvent by the end of 2025, absent changes in law (see Figure 3 below).

Figure 3.

PBGC Assets, Average Assistance Payments and Premiums by Fiscal Year

Reflecting Assumed MPRA Suspensions / Partitions

(Projected in Nominal $ Amounts)



As insolvency of the insurance program grows closer, the changes required to prevent insolvency become more disruptive and painful for participants, plans, and employers.

Most of my testimony today will be about the Multiemployer Program and the urgent need to fix its problems.

But let me talk first about the Single-Employer Program.

SINGLE-EMPLOYER PROGRAM

The Single-Employer Program protects about 30 million workers and retirees in about 22,500 ongoing pension plans. The program is funded by premiums, investment income, assets we take over when a plan fails, and recoveries from employers who sponsored these failed plans.

When an employer can no longer maintain its pension plan—often in the case of company bankruptcy or business failure—the plan is terminated and PBGC steps in and becomes the trustee of the plan. PBGC pays benefits promised under the plan subject to statutory limits. In some cases, plan assets and PBGC recoveries of unpaid contributions and unfunded benefits from plan sponsors enable PBGC to pay more than the statutory guarantee. While PBGC is reviewing plan records, valuing plan assets, and determining final benefit amounts—often a complex and lengthy process, especially in large plans—PBGC pays estimated benefit amounts.

In FY 2017, PBGC paid $5.7 billion in benefits to 840,000 retirees and beneficiaries in nearly 4,900 plans. PBGC will pay benefits to an additional 552,000 people in these plans when they retire.

Excellent customer service is a top priority at PBGC. In FY 2017, PBGC received a retiree customer satisfaction score of 91, which is among the best in public and private sectors, according to the American Customer Satisfaction Index.

Preserving Plans

We work hard to keep plans ongoing. An ongoing plan generally is the best outcome for everyone—

- Workers continue to earn benefits (if the plan is not "frozen");
- Plan benefits are preserved, as no one suffers a benefit reduction as a result of guarantee limitations;
- The employer is not faced with a sudden claim for plan underfunding;
- The insurance program does not incur an avoidable claim, which protects other premium payers from future premium increases; and
- Employers are able to maintain their promises to employees.

In FY 2017, PBGC helped to protect more than 26,700 people by taking action in bankruptcy cases to encourage companies to keep their plans when they emerged from bankruptcy.

Through our Early Warning and Risk Mitigation Program, we worked closely with sponsors to create satisfactory arrangements to safeguard participant benefits. These agreements provided almost $600 million in financial protection for more than 240,000 people in plans put at risk by corporate transactions. These agreements also avoid placing an unnecessary burden on all employers who pay PBGC premiums.

Trends

Defined benefit pensions have long been and remain an important component of retirement security for a significant number of workers and retirees. But as the GAO noted in its recent report on Retirement Security[2], beginning in the mid-1980's sponsors of single-employer defined benefit plans have been moving away from these plans. That trend is accelerating as companies seek to limit their exposure to risk and contribution volatility by freezing plans or transferring risk through annuity purchases and lump sum payout options.

We at PBGC are doing what we can to help employers keep their defined benefit plans. We have increased our outreach to the pension community through more and improved communications and opportunities to provide us with input. We want plan sponsors and plan practitioners to know that we are serious about understanding and addressing their concerns.

In FY 2017, we cut in half the penalty rates for late payment of premiums for all plans and waived most of the penalty for plans that meet a standard for good compliance with premium requirements. We also upgraded our online premium filing application to make filing easier and quicker. These upgrades resulted in our premium payers giving us a customer satisfaction score of 85 in FY 2017, an all-time high that exceeds PBGC's target of 79.

On October 16, 2017, PBGC announced the creation of a Pilot Mediation Project in the Single-Employer Program that will offer voluntary mediation to plan sponsors to facilitate resolution of negotiations in certain Plan Termination Liability Collection and Early Warning and Risk Mitigation Program cases. The Pilot Mediation Project will allow parties to resolve cases with the assistance of a skilled, neutral and independent dispute resolution professional.

EXTENDING THE MISSING PARTICIPANTS PROGRAM TO MORE TYPES OF TERMINATING PLANS

Another innovation coming soon is the expansion of PBGC's Missing Participants Program to enable most terminating defined contribution plans to transfer the benefits of missing participants to PBGC or to inform PBGC about other arrangements for distributing their benefits. Through PBGC's search efforts and its centralized online searchable database, the expanded Missing Participants Program will help participants find and receive the benefits being held for them. The expanded program also will cover terminating small professional service pension plans and multiemployer plans. PBGC expects the expanded program to be operational in 2018 after publication of a final rule.

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[2] The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security. GAO-18-111SP: Published: Oct 18, 2017. Publicly Released: Oct 18, 2017.

MULTIEMPLOYER PROGRAM

A multiemployer plan is a pension plan created through a collective bargaining agreement between employers and a union. The employers are usually in the same or related industries. Multiemployer plans provide benefits for people in industries such as transportation, construction, mining and hospitality.

The Multiemployer Program protects over 10 million workers and retirees in about 1,400 ongoing multiemployer plans. Multiemployer plans overall are less well funded than single-employer plans. Most multiemployer plans covering a majority of multiemployer participants are not at risk of running out of money. But a significant minority of multiemployer plans, some very large, and covering one million participants, are seriously underfunded and project they will run out of money within in the next 20 years.

PBGC's Multiemployer Program provides financial assistance to multiemployer plans that have run out of money so that they can pay benefits at PBGC guaranteed levels.[3] The program is funded by premiums paid by the plans. Our financial assistance is technically a loan to the insolvent plan. But because insolvent plans are in such dire financial condition, financial assistance loans are almost never repaid.

Causes of Multiemployer Plan Underfunding

Many factors – financial, economic, and demographic – contributed to the financial distress of some multiemployer plans.

Before the decade of the 2000s, defined benefit plans, including multiemployer plans, earned historically high rates of return, which kept plans well-funded without large employer contributions. High investment returns financed benefit improvements, such as increased benefit accrual rates, past service credits, new or increased early retirement subsidies, and disability pensions.[4] These new obligations compounded the plans' liabilities during the 1990s.

The significant market losses in the early 2000s and especially in the 2008 market crisis and great recession took a huge toll. Average funded ratios (market value of assets divided by liabilities discounted using a standardized PBGC interest factor) exceeded 90% in the 1990s, then dropped to the mid-60% range in the mid-2000s, and fell below 50% after the 2008 market crisis.

Most plans were able to recover but a significant number were not, including some very large plans covering thousands of participants and in a few cases hundreds of thousands.

Factors such as decline in unionized employment, competitive pressures from non-unionized businesses, and decline in demand for products or services, caused some companies to go out of business. They left behind the unfunded benefits of their inactive and retired workers (sometimes referred to as orphan liabilities). Today, the ratio of active to inactive participants is at its lowest point ever: among multiemployer plans in the aggregate, fewer than four out of

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[3] Financial assistance also covers reasonable administrative expenses.

[4] Because of maximum deductible limits, some plans increased benefits during this period to avoid losing deductible treatment of employer contributions, which also contributed to longer-term costs. These limits were raised in the Pension Protection Act of 2006.

every ten covered participants is actively employed by a participating employer. In addition, downsized companies that remained in business contributed on fewer hours worked. As underfunding in these plans deepens, remaining employers are faced with a difficult choice: higher contributions if they stay; higher withdrawal liability if they leave. And if they do leave, the plan will be at greater risk of failure.

Severity of the Problem

PBGC's Financial Statements reflect the serious underfunding in these multiemployer plans and our Projections Report shows how this underfunding is likely to result over time in a growing deficit and more important, the inability of the Multiemployer Program to provide the financial assistance that failed plans need to pay guaranteed benefits.

In FY 2017, PBGC paid $141 million in financial assistance to 72 multiemployer pension plans, covering the benefits of over 63,000 retirees with an additional 30,000 people entitled to benefits once they retire. Seven of the 72 plans became insolvent during FY 2017. In the coming years, the demand for financial assistance from PBGC will increase as more and larger multiemployer plans run out of money and need help to provide benefits at the guarantee level set by law.

As of September 30, 2017, the Multiemployer Program had assets of $2.3 billion to cover $67.3 billion in liabilities in 187 plans. The liabilities consist of:

- $2.7 billion for the 72 plans currently receiving financial assistance
- $2.0 billion for 68 plans that have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers
- $62.7 billion for 47 plans that are ongoing (i.e., have not terminated), but PBGC expects they will exhaust plan assets and need financial assistance within 10 years.[5]

The last two categories—terminated plans and ongoing plans expected to need financial assistance within 10 years—are classified as "probable" obligations of the Multiemployer Program.

The $67.3 billion in Multiemployer Program liability is an increase from $61.0 billion in FY 2016. In addition to the $67.3 billion booked as a liability in our financial statements, there is $14 billion in underfunding that is not reflected in our financial statements in ongoing multiemployer plans projected to become insolvent in the next 10 to 20 years; these plans are classified as "reasonably possible" future obligations.

As noted earlier, our most recent projections show that, absent a change in law, the mean present value 2026 deficit is about $78 billion (in nominal dollars), and Multiemployer Program assets are likely to be exhausted in 2025.[6]

[5] The liability for ongoing plans includes a small probable bulk reserve of $1.1 billion.
[6] PBGC FY 2016 Projections Report.

Consequences of Multiemployer Program Insolvency

When Multiemployer Program assets are exhausted, the only money available to provide financial assistance for benefit payments will be incoming multiemployer premiums. Multiemployer premium income in FY 2017 was under $300 million, and the annual premium rate, $28 per participant for 2017 and 2018 plan years, will increase only by indexing. Premium revenue will be too low to provide the annual financial assistance required for insolvent plans. As a result, funds in the Multiemployer Program will represent only a small fraction of current guarantee levels.

Further, under ERISA, multiemployer guarantees are already much lower than single-employer guarantees. For example, the maximum guaranteed benefit for a retiree with 30 years of service is $12,870 annually; the multiemployer guarantee has not increased since 2001 and is not indexed for inflation. In contrast the maximum guaranteed benefit for a retiree in a single-employer plan is $64,432 annually, reduced for people younger than age 65[7] and for the value of any survivor benefits; the single-employer guarantee is indexed for inflation.

PPA and MPRA

Congress enacted two pieces of legislation to address underfunding in multiemployer plans: The Pension Protection Act of 2006 (PPA) and the Multiemployer Pension Reform Act of 2014 (MPRA).

The Pension Protection Act of 2006 categorized multiemployer plans based on funded status, compliance with minimum funding standards, and time until likely insolvency. Plans with severe funding and liquidity issues were categorized as "critical status" plans (commonly referred to as "red zone" plans). Generally, these are plans that are likely unable to meet minimum funding requirements or are likely to become insolvent in the near term.

Under PPA, critical status plans must establish a Rehabilitation Plan detailing how they intend to emerge from critical status (generally within 10-13 years, through actions such as increasing contributions and reducing future accruals or adjustable benefits). If they are not projected to emerge during the rehabilitation period after exhausting all reasonable measures, they must develop an alternative scenario that allows them to emerge at a later time or to otherwise forestall possible insolvency.

The Multiemployer Pension Reform Act of 2014 defined a subcategory of critical status plans that are "critical and declining." These are critical status plans whose actuaries project that plan insolvency will occur within 15 years (or in certain situations, within 20 years).

MPRA gives critical and declining plans additional options to address the risk of insolvency, but the use of these options presents difficult choices for plan sponsors and participants. Under MPRA, critical and declining plans may take steps to improve long-term solvency by permanently reducing benefit promises to participants via benefit suspensions if they meet certain requirements, including application to and approval by the Department of the Treasury.

MPRA also changes PBGC's ability to provide early financial assistance to plans, either by assuming part of the plan's liabilities via a plan partition or by providing facilitated merger assistance. To receive partition assistance, the plan must take all reasonable measures to avoid

[7] The maximum guarantee is increased for ages above 65.

insolvency including the maximum benefit suspensions, if applicable. Mergers can stabilize or increase the base of contributing employers, combine plans' assets for more efficient investing, and reduce plans' administrative costs. Under MPRA, PBGC is authorized to help plans merge with other multiemployer plans. Plans may request technical assistance, and critical and declining plans may also apply for financial assistance to facilitate a merger, if necessary to avoid plan insolvency. PBGC is working on a final rule that would provide guidance on the process of requesting a facilitated merger.

The new options provided by MPRA are also expected to reduce PBGC's liability. A partition, or any facilitated merger, must reduce PBGC's long-term loss and cannot impair its ability to provide financial assistance to meet existing obligations to other plans.

PPA and MPRA can help some critical and declining plans but cannot help all of them. In some cases, underfunding is so large relative to future cash inflows that benefit suspensions and partition cannot keep the plan solvent long-term.

The Road Carriers Local 707 Pension Fund, which is based in Hempstead, New York and covers nearly 5,000 participants, illustrates the problem. In 2016, the 707 Fund became unable to pay full benefits at the levels promised under the plan, and reduced retirees' benefits to levels that were supportable by available plan assets. The Fund applied for MPRA benefit suspensions and a PBGC partition in order to preserve benefit payments above PBGC guarantee levels. But projected future contributions and other income were insufficient to avoid insolvency, even with the maximum benefit reductions allowed under MPRA and a PBGC partition. The plan became insolvent early in 2017, and the agency began providing financial assistance to the plan to cover benefits at PBGC guaranteed levels.[8] As a result of the plan's insolvency, nearly one-half of all participants had their benefits reduced by more than 50 percent.

Where MPRA is a viable option, the degree to which plans will attempt to extend solvency through benefit reductions and requests for early financial assistance requests remains unknown. As of the close of FY 2017, fifteen troubled plans had made an application for suspension, with three also seeking a partition from PBGC to remain solvent. To date, only one combined application for suspension and partition, and three suspension-only applications, had received all the required approvals.[9]

In modelling projected insolvency dates and deficits for the Multiemployer Program, PBGC looked at scenarios where some plans use MPRA benefit suspensions or early financial assistance and where no plans used such MPRA tools. The mean date for Multiemployer Program insolvency was 2025 in both scenarios. The mean 2026 deficit in nominal dollars differed only slightly by scenario—$77.8 billion with MPRA and $78.8 without use of MPRA.

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[8] News Release: PBGC Provides Financial Assistance to Road Carriers Local 707 Pension Fund - Participants' Benefits Payments Cut to PBGC Guaranteed Levels. https://www.pbgc.gov/news/press/releases/pr17-02

[9] Ironworkers Local 17 Pension Fund received final authorization on January 27, 2017 https://www.treasury.gov/services/Responses2/Iron-Workers-Local-17-Final-Approval-Letter.pdf. As it occurred after September 30, 2016 it is not reflected in the report scenario which shows no future suspensions.

Helping Plans Avoid Plan Insolvency

We work with troubled multiemployer plans and their sponsors who come to us seeking to prevent plan insolvency. We provide advice and assist them in whatever way we can.

This year we approved the first plan partition under the Multiemployer Pension Reform Act of 2014 (MPRA) for the United Furniture Workers Pension Plan A. Under partition, early financial assistance from PBGC before the plan becomes insolvent, along with required benefit reductions, will help the plan to avoid insolvency and pay benefits above the guarantee level to nearly 10,000 participants over the long term.

But the tools PBGC has to address the multiemployer crisis are very limited. We have been working with stakeholders and policy makers to find new ideas for shoring up the program.

Legislation is needed to address the looming insolvency of PBGC's Multiemployer Program and again make the PBGC guarantee something American workers and retirees, and their families, can count on. A number of proposals have been put forward. Some are designed to help plans avoid insolvency and thus help PBGC indirectly. Others are designed to help PBGC avoid insolvency.

The President's FY 2018 Budget included a proposal to shore up the PBGC's Multiemployer Program. The Budget proposes adding a variable-rate premium on unfunded benefits, similar to the Single-Employer Program, with provision for waiver to avoid accelerating insolvency in the most troubled plans. The proposal also includes an exit premium on companies that withdraw from multiemployer plans. The proposal is estimated to raise an additional $16 billion over the ten-year budget window.

CONCLUSION

While the Single-Employer Program is improving, the Multiemployer Program is headed toward insolvency. It is more likely than not that the program will run out of money in 2025.

The longer the delay in making the changes needed to improve the solvency of the Multiemployer Program, the more disruptive and painful those changes will be for participants, plans, and employers.

If the PBGC Multiemployer Program is allowed to become insolvent, the only money available to provide guaranteed benefits will be incoming premiums. Only a small fraction of the current, very modest guarantee will then be funded. The result will be catastrophic for many people—current and former workers, retirees, beneficiaries, and their families.

I appreciate the leadership that the members of this Subcommittee have provided in calling attention to the challenges faced by multiemployer plans and the PBGC Multiemployer Program. I look forward to continuing to work with you to ensure that PBGC's guarantee is one that workers and retirees can count on in the future.

I am happy to answer any questions.

Chairman WALBERG. I thank the gentleman. And I thank you for giving us information difficult to hear. But as my father used to tell me, there's no ability to achieve a solution unless you know the full facts and the depth of those facts. So I appreciate that, and I know that you have further responses to the questions we have.

I now recognize the chairwoman of the full committee, the gentlelady from North Carolina, Ms. Foxx.

Ms. FOXX. Thank you, Chairman Walberg.

And, Director Reeder, thank you so much for being here today. As Chairman Walberg said, we need to know the facts, we need to know the story. A lot more attention is being paid to the issues related to pensions and retirement in the country, and it is important that we have the baseline to deal with. And we want to work with you on helping to solve these problems you're presenting.

You talked about the single-employer pension insurance program being in better financial position. Can you discuss how the reforms to the single-employer pension plan made in the Pension Protection Act of 2006 have contributed to this stability? And do you have some recommendations on reforms that Congress should consider to the multiemployer pension funding rules?

Mr. REEDER. Yes. Thank you, Madam Chairman.

I do believe that the Pension Protection Act included significant funding reforms. They included reforms in both the single and the multiworld, but the funding rules in the single world have much more teeth. There's more consequences to failing to follow the funding rules in the single-employer world.

And just as importantly, with PPA and subsequently enacted legislation, the premiums that single-employer plans pay is more consistent with the benefit and the guarantee level that's provided under the single-employer world. And I think the primary effect of the PPA on the single world was the teeth in the funding rules.

Including those kinds of teeth in the multiemployer world would help prevent the program from getting worse, but I'm not sure that funding rule changes would help us dig out of the problem that we're in the multiworld. The problem we're in is so deep that it's difficult to dig out of without some other funding source other than putting—we can't fund up all the multiemployer plans quickly enough to avoid the disaster.

Ms. FOXX. Thank you for that.

I was here in 2006, and many people have heard me say this comment. I was on this committee. Chairman Boehner said to us on the morning that we had the markup, he always wondered why nobody had done any pension reform for 30 years. And then when he got into it, he realized it was very hard work. And those words have stuck with me since that time.

We know also from your comments that too many pensioners may not receive the benefits they were promised. When the plans are terminated, what liability attaches to contributing employers? What liability attaches to unions who participated in making these promises?

Mr. REEDER. When the plans terminate, if they completely terminate, there will be a withdrawal obligation, a withdrawal liability obligation on the part of all the participating employers who were contributing to the plan, and they will have to contribute amounts

equal to the underfunding up to certain limits. And that's if the plan terminates.

Oftentimes, when a plan becomes insolvent, it doesn't necessarily terminate, and the employers can continue to contribute at the same rate that they were contributing. But if it terminates, the employers would have withdrawal liabilities. The unions would not have a liability.

Ms. FOXX. Thank you very much.

I yield back, Mr. Chairman.

Chairman WALBERG. I thank the gentlelady.

Now I recognize the ranking member of the full committee, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

And, Mr. Reeder, thank you for being here.

What we're facing is a problem of arithmetic in the multiemployer plans. The PBGC, as we've heard, has $2 billion in assets and $67 billion in present value liabilities.

According to your testimony, Mr. Reeder, the PBGC will need to make about $2 to $4 billion a year in pension payments with a premium revenue of only $400 to $500 million. So the problem is imminent, and it reminds me of the old saying: Nothing focuses the mind in the morning like an execution scheduled later that night.

I hope this hearing helps focus our minds, and that we recognize that bipartisan action on this matter cannot be postponed later. As you pointed out, the longer you wait, the more difficult and more expensive it is to solve the problem. And so we can talk about the problem. I think you've articulated the problem. Let's see what some kind of solutions there may be.

First, let me ask whether or not the premiums of multiemployer programs are sufficient.

Mr. REEDER. I think the multiemployer program has premiums that have been too low for too long. They were $9 per participant until 2012, and they increased to $28 today in their index now. That is below what I believe is a market rate for what it would take to insure that kind of benefit, especially when the insurer has no ability to decide who it's going to insure and who it's not. As I said in my testimony, we cover all plans regardless of their condition.

I think the premiums are still too low. I realize that raising them is difficult, but I don't think they reflect the economic reality of the obligations we have.

Mr. SCOTT. Are there any ways to set premiums in a risk-based way so that we recognize not only the present solvency based on assets, but also assess the risk based on the quality of the assets? Is there any plan that you know of that could set premiums like that?

Mr. REEDER. The administration has included in its most recent budget a proposal that would restructure the multiemployer plan premium so that it would have a risk-based element. It's a variable premium rate that increases with the level of underfunding.

That is not exactly a risk-based premium like you suggested. But the single-employer world has that variable rate premium, and it's one of the reasons why the single-employer program is doing better, because plans have an incentive to fund up their plans—em-

ployers have an incentive to fund up their plans to avoid that variable-rate premium.

Mr. SCOTT. That's based on present level of assets.

Mr. REEDER. Yes, sir.

Mr. SCOTT. Do you have any examples where you could look at the volatility of the plan, the quality of the assets, and base premiums on that?

Mr. REEDER. I'm not aware of any proposal, concrete proposal to do that. There have been proposals in the single-employer world to have a risk-based premium based on the financial condition of the sponsor, but they have been rejected. I mean, that proposal has been made by every administration I'm aware of back to President Reagan, I believe, that they have a risk-based premium in the single world, but it's been reject every time it's been proposed.

Mr. SCOTT. Are there volatility assessments anywhere else that you're aware of?

Mr. REEDER. I'm sure insurers—

Mr. SCOTT. You do have a plan in the United Kingdom that allows that kind of—

Mr. REEDER. Yes. The United Kingdom does look at the quality of assets.

Mr. SCOTT. And base the premium on that based on the quality?

Mr. REEDER. Yes.

Mr. SCOTT. So that those who are volatile and likely to go broke would pay a higher premium than those who have invested in more stable, safe assets.

Mr. REEDER. That's correct.

Mr. SCOTT. Is there anything else we can do to address the fact that every 20 years the stock market goes broke?

Mr. REEDER. Well, again, I'd point to the single-employer world where plan sponsors are using liability-driven investments that match the volatility of the assets with the timing of the obligations. And as plans become more fully funded, they invest more in fixed-income securities.

Chairman WALBERG. I thank the gentleman.

I recognize myself now for my 5 minutes of questioning.

Director Reeder, again, thanks for being here.

The multiemployer insurance program has a deficit that exceeds $65 billion, as we've indicated so far. In townhalls throughout my district, including one just this past Monday, I've heard of the devastation facing—pensioners are worried that they will not receive what they promised, as well as employees, present employees, who are paying into the system that they believe will not have any benefit for them as well. I've heard from businesses that feel the same way in the present situation, and they feel captive.

While I share their frustration and anger, I certainly don't share their reality. I'm not dealing with that, and I don't think anyone here in the desks looking down share that same reality. But the frustration, the anger that we hear is important to recognize.

In your opinion, what have been the major contributing factors causing these looming plan insolvencies?

Mr. REEDER. It is a combination of factors. It's demographic, it's economic, and it's investments.

I think it's also been regulatory as well. I think there were periods in the history of multiemployer plans when the amount that was bargained for to be contributed to the plans is more than the plans needed. The plans were fully funded and yet employers and employees still bargained for contributions to the plan.

And in order to make those contributions deductible, because under the Tax Code they're not deductible if they're more than is required to be held, the plans reacted by increasing benefits. And then in hard times, like Congressman Scott recognized it, in hard times, when the value of the assets fell, you had these higher benefits that were very difficult to get rid of, if not impossible to get rid of.

Chairman WALBERG. So there were overpromises to plan participants?

Mr. REEDER. That's correct. That's correct.

Chairman WALBERG. There have been proposals to provide, for the first time in history, Federal taxpayer dollars to prop up failing plans. We're all aware of those. How much money, in terms of Federal taxpayer dollars, would the government need to provide these plans in order to solve this problem permanently for all multiemployer plans?

Mr. REEDER. I can't give you a number, but it's much more than would—it's exponentially more than is required to keep PBGC solvent. The level of benefits that are promised under plans are up here; the level that we guarantee is down here. And I'm focused on making sure that guarantee works.

And as you mentioned, there are other people who would like this level of promised benefits paid. It would help us with the lower level if the people who made these promises never come to our door. So any amount that can be provided to plans to keep them from coming to our door would help us. But—

Chairman WALBERG. Tens of billions of dollars?

Mr. REEDER. Yes.

Chairman WALBERG. Or more?

Mr. REEDER. Much—yes, or more.

Chairman WALBERG. OK.

Mr. REEDER. As I said, the plans are about 50 percent funded, or a little bit less than 50 percent funded on the whole. And if you wanted to fully fund them all up, you'd need a lot of money.

Chairman WALBERG. Director Reeder, most independent observers agree that multiemployer pension premiums are too low, as you've said. The size of the deficit indicates that the government has been undervaluing the risk of these plans. How much more would a private insurer need to charge to insure these benefit promises?

Mr. REEDER. Because of the unique aspect of what we insure, I can't give you that number. And you might think it's a little disingenuous of me to say they're undervalued, but I assure you it would be a lot more than what is being paid. I can't give you the number.

The main reason is because, in the insurance world, they not only get to set their own premiums, but they get to regulate more as to what the insured people do.

It's also difficult to raise the premiums after the accident has already occurred. And we have—I won't say the accident has occurred, but we're a few hundred feet in front of the brick wall, and we're moving at very high speed. So it's very difficult to raise the premiums to a market level immediately.

Chairman WALBERG. Thank you. My time has expired.

I now recognize my ranking member and good friend, Mr. Sablan.

Mr. SABLAN. Again, thank you very much, Mr. Chairman.

And, Mr. Reeder, I appreciate you saying in your testimony that legislation is needed to address the looming insolvency of the multiemployer pension program, and I agree. As you may be aware, Congressman Neal recently introduced legislation, H.R. 4444, that would provide low interest loans to failing plans and potentially other financial assistance through the PBGC. Most of the Democratic members of the HELP Subcommittee are cosponsors of Mr. Neal's bill, which, most importantly, does not cut retirees' pensions.

One, has the PBGC had an opportunity to review Mr. Neal's bill? And if so, what are your thoughts on it? If not, when will you finalize your review and analysis of it, and will you share it with us when it is completed?

Mr. REEDER. We have not had a chance to review it fully. We are looking at it closely. It is very difficult to evaluate exactly the effect and the cost of the program, because each plan is plan specific, and we don't have data from plans that we need to see how that would affect each plan.

And other loan proposals have actually gone to plans and sought out their advice on whether or not the loan proposal will cure the problem, cure their problem. But we can't—it's difficult for me to predict when our analysis is going to be done, but I assure you we can share it whenever we have it.

Mr. SABLAN. Thank you. And so I would go to—my next question is, has the PBGC reviewed the other proposals put forward by UPS, one, and the National Coordinating Committee for Multiemployer Plans? And if so, again, what are your thoughts on those proposals? If not, when will you finalize your review and analysis of these proposals, and will you share it with us when it is complete?

Mr. REEDER. Again, we can share our analysis with you, but as I've said about the other proposal, it is very difficult to evaluate the loan proposal on a plan-by-plan basis. And we need to do that, because we need to look at whether or not it resolves the problem for the big plans that are facing imminent insolvency. And we don't have access—we have to go through the plans to get access to that, and so far we've been unsuccessful.

But we do think that the loan proposals all would clearly have an effect. But exactly what that effect is, we don't know. And whether or not it's going to resolve the problem—and again, we're talking about a problem up here where a promised benefit is not a problem just for PBGC.

Whether or not it resolves the problem, we can't say, although we're a little bit skeptical, because we think that maybe the assumptions that are being used by the people who are proposing the other proposals may be a little rosy.

Mr. SABLAN. All right. Thank you.

Mr. Reeder, the committee chair is here, very strict on time, so let me try and get to my next question.

I believe that one of the most attractive features of Mr. Neal's bill is that it does not include cuts to the pensions, retirees' pensions. So we should do our best to protect what was promised to these hardworking Americans. And let's be clear, the pension benefit that those in multiemployer plans receive is often quite modest. For instance, I understand that the average pension paid by the Mine Workers plan is $530 a month.

So could you please talk about the pension benefit rates among multiemployer plans? And we only have 48 seconds.

Mr. REEDER. Yes. The benefits vary greatly. There are plans that have very modest benefits. And as you pointed out, the coal miner plan has much more modest benefits and the Teamsters have a higher, much higher level of benefit. And so a reduction to the PBGC guarantee level would affect the Teamsters much more than the coal miners, but they will have an effect on both groups.

Mr. SABLAN. All right. And I'm going to yield back my time, but I may submit other questions for the record.

Mr. REEDER. Yes.

Mr. SABLAN. Thank you.

Thank you, Madam Chair. I yield back

Ms. FOXX.

[Presiding] Thank you, Mr. Sablan.

Dr. Roe, you're recognized for 5 minutes.

Mr. ROE. Thank you, Madam Chairman. I too want to thank Andy Banducci, who sat by me as I sat in that chair for 6 years.

Andy, thanks for your friendship, and thanks for the hard work you did on behalf of the committee.

First of all, Mr. Director—and I appreciate you coming by the office and speaking with me—I can see myself sitting out in that audience concerned. My father was a union member, lost his job at 50. It was off-shored. And here he was, post-World War II, no job, and no pension plan.

I can see myself sitting there. And it looks to me like that we have two very conflicting issues here. One, the PBGC's current funding can't meet its obligations; and, two, some of the multiemployer pension plans can't meet their obligations.

And I guess the question I have is that if you don't have enough money to pay the obligations, there are things that we have to look at. One, are we paying premiums enough? You've talked about the premiums, right? Has an improving economy, which has improved tremendously in the last year, helped make these plans more solvent and extended that time? Three, can we reduce benefits? That's another option that you have. Increase premiums, improving economy, reduce benefits.

And can you fund—and I've always thought this. You should be able to fund a pension plan above what we allow during good times, because you see in the 1990's, when the dot-com was going along, the economy was doing great, we should have upfunded those plans in, instead of not funding them, I think.

And then last, I want to ask have there been any government decisions, any decisions that—government policies that have contrib-

uted to the failure of the plan? And going forward, do we need a new type of pension plan?

Mr. REEDER. I'm sorry. I didn't take notes at the beginning of your question, so there were lots of items. I'm sure you'll remind me if I miss something.

But, yes, I do think that there's been errors, as I mentioned in a prior question, in the government's behavior in limiting the amount that can be contributed to a plan. And I do believe that those rules have been loosened and people can contribute more in better times. But your point is, will they? I think with a variable rate premium, we might encourage them to do so in better times.

I do think that a different sort of plan is something that should be examined. I am heartened by the various proposals that have been given about having a different plan. But I have to emphasize that, from my perspective, it is very important that we not affect the funding levels, we don't adversely affect the funding levels of the existing promises that have been made, and I'm very fearful of new plans having that effect.

But I think, if there's going to be anything that looks like a defined benefit plan in the future for our grandchildren, I think it's going to have to look a little bit different than today.

Mr. ROE. Well, the administration has proposed changing—charging underfunded multiemployer pension plans an additional premium based on risk. Mr. Scott talked about this. How would the PBGC ensure that this new premium wouldn't accelerate the insolvency of already underfunded plans as far as the money they don't have?

Mr. REEDER. Well, the proposal, the administration's proposal has a provision that allows for the PBGC to waive up to 20 percent of the premium in total for plans that it would adversely affect, because we certainly don't want to accelerate the problem. And we would exercise that authority to avoid charging plans that are already close to insolvency or critical and declining, avoid charging them a higher premium. That's just money that goes into our pocket and goes right back out.

Mr. ROE. So we defined the problem pretty well. We don't have enough money to pay the obligations.

What solutions have the PBGC—it's not your job—but what solutions have you brought forward or you think we could do to help solidify these plans?

Mr. REEDER. Well, there's an array of solutions, and we've been looking at lots of different proposals that have been made that range from government funding to benefit cuts to earlier benefit cuts for a plan that's headed toward insolvency that's going to go to the PBGC. Almost certainly, the earlier they make the cuts, the less drastic the cuts have to be if you're going to cut. But all of those are very politically uncomfortable resolutions.

Mr. ROE. Thank you, Mr. Director.

I yield back.

Chairman WALBERG.

[Presiding.] I thank the gentleman.

I recognize the gentleman from New Jersey, Mr. Norcross.

Mr. NORCROSS. Thank you, Chairman. I certainly appreciate you, along with our ranking member, putting together this incredibly important meeting.

And as you suggested, we up here might not have a stake in the game or skin in the game. I am a multiemployer pensioner. I understand this. I've been a part of it for a better part of 37 years. That's why I understand how important this is.

So, Director Reeder, thank you very much for bringing it to us.

This isn't a red issue, this is not a blue issue, this is not a Republican or Democrat issue. It's an American retirement security issue. Those men and women who literally deferred part of their compensation to have a secure retirement was a solemn vow they made, and they kept their promises. So we need to make sure that we keep our promises in making sure they get their full benefit.

I'd just remind members here, we promised a lot in Social Security, yet we've made changes for years. So when we hear some of the statistics that you're talking about, 72 plans have failed, what is going to happen, the cost of inaction, you know, the changes, do you want to leave the defined benefit and go to a defined contribution which shifts the liability, all these issues come into play.

But the cost of inaction, if we do nothing. So let me walk through this. You say by 2025, it's the estimate, you'll be bankrupt, upside down, no longer can pay premiums. Today, for a pensioner that makes—or gets a, let's say, a $50,000 pension, which is above the norm, what is the maximum benefit that he or she can receive if that plan goes under?

Mr. REEDER. Today—

Mr. NORCROSS. Today.

Mr. REEDER [continuing]. that amount is a little under $13,000 if they have 30 years of service.

Mr. NORCROSS. Right.

Mr. REEDER. A little more if they have more service yes.

Mr. NORCROSS. Yes. It's a rather complicated formula. $12,870 today. If you have $100,000 pension or if you have a $50,000, no matter what it is, the most you can get if that plan goes under is $12,870.

Mr. REEDER. Correct.

Mr. NORCROSS. So if we do nothing and plans crash, the maximum anybody can get is $12,870. Is that correct?

Mr. REEDER. Today.

Mr. NORCROSS. Today. The cost of doing nothing.

Mr. REEDER. In 2025, they will get less than $2,000.

Mr. NORCROSS. So the cost of inaction here is the issue that we're dealing with.

A couple of issues. You said you were expecting the premiums to increase from $200 million to $400 million. How is that possible? Is that by your anticipating the increase that's indexed already?

Mr. REEDER. Yes.

Mr. NORCROSS. And that's keeping every plan healthy. So if a plan goes bankrupt, that would pull away from a premium increase.

Mr. REEDER. Yes. That's including a consideration of some plans dropping out.

Mr. NORCROSS. So you factored that in.

Mr. REEDER. Yes.

Mr. NORCROSS. Did you factor in the increases on how that might accelerate healthy plans from becoming unhealthy, going into yellow or red zone?

Mr. REEDER. The premiums under their current rate, I don't believe we factored in an effect of the premiums.

Mr. NORCROSS. The more you charge premiums, the less healthy, they either have to increase what they're paying or lessen the accumulated benefit, correct?

Mr. REEDER. That's correct. But I think the inflationary increase is not going to have the same effect as a legislated increase. I agree that a legislative increase would have an effect.

Mr. NORCROSS. So the risk-based premium—shifting here a little bit—is that based on individual plans or companies, or is that risk based for the entire multiemployer?

Mr. REEDER. Well, the variable premium rate would be based on the underfunding of the entire plan.

Mr. NORCROSS. Across the board for healthy plans and unhealthy plans. So you would use the healthy plans to pay for the unhealthy plans, correct?

Mr. REEDER. No. No. If a plan was fully funded, it wouldn't pay the variable rate premium.

Mr. NORCROSS. Only 100 percent. So if they're 90 percent, would they pay the premium?

Mr. REEDER. Yes. I mean, the details of the variable rate are not specified in the proposal. And the details, you could say, is where the devil resides.

Mr. NORCROSS. I agree. And, again, I want to thank everybody on both sides of the aisle here. The cost of doing nothing is unacceptable.

Thank you. I yield back.

Chairman WALBERG. I thank the gentleman.

I recognize my colleague and friend from Michigan, Mr. Mitchell.

Mr. MITCHELL. Thank you, Mr. Chair.

Mr. Reeder, you referenced earlier in a conversation with another colleague that you have begun to look at the loan concept. But in looking at that, you need to look at individual plans. And you've been unsuccessful in being able to do that. Can you share with me why you've had difficulty in terms of being able to look at those plans?

Mr. REEDER. We need more data on the accrued benefits per participant to determine what it takes to make the plan viable in the long run.

Mr. MITCHELL. And why have you not been able to get that?

Mr. REEDER. Well, it's not something that we collect. I mean, it's not—we have a pretty complex 5500 that they—Form 5500 that they file every year, and adding to that would cause some consternation. And we have added to that in the past, but we don't have it right now.

Mr. MITCHELL. Well, these are plans that are in pretty dire straits. So would they not be wise to simply supply it so that you could have more detailed information since they're looking for a way to avoid insolvency?

Mr. REEDER. Well, with respect to the analysis of the loan program, I think it would be, but we haven't gotten it. We've asked for it.

Mr. MITCHELL. They declined to effectively provide it, effectively.

Mr. REEDER. Right. I mean, we didn't ask for it in a judicial or legal way. We didn't subpoena it or anything. But we said we would like information on how the program would keep the plan solvent, and we have not received it.

Mr. MITCHELL. For the record, I'd like to ask, Mr. Chair, that we get a listing of those plans that you've asked, the information, what information you've asked for, and those who've responded or if not, if you would, please.

Mr. REEDER. Let me just say we've asked the proponents. We haven't asked the specific plans.

Mr. MITCHELL. I would suggest and ask respectfully that you ask the specific plans since it has a significant impact on our deliberations here, and yours, how we address this issue responsibly.

You made a reference also in your testimony about the fact that the individual plan teeth are far more successful and we don't have effective teeth in the multiemployer plans. Have you got specific recommendations you can share in terms of how to get better teeth in those multiemployer plans?

Mr. REEDER. Well, the big teeth in the single world is an excise tax. And to charge an excise tax, it's a confiscatory excise tax, and it's something that people want to avoid. And in order to do that in the multiemployer world, and the reason it's been so difficult, is it's not clear who you charge that tax to. If it's the plan, then you could make the matters worse.

Mr. MITCHELL. Worse.

Mr. REEDER. If it's the employer, well, it's difficult to get that legislated. If it's the participants, it's difficult to get that legislated. It's similar to raising premiums.

Mr. MITCHELL. It also seems to me that by doing that, the ones that effectively go bankrupt earlier are better off, right, because you're actually imposing the penalty on those that are left standing, so to speak.

Mr. REEDER. That's right.

Mr. MITCHELL. You talk about the promises made, the current guarantee, which for multiemployer plans are very low. Have you done any analysis of—the reality is you have plans here that there have been decisions made for a variety of reasons, some poor decisions, some economic impacts. Have you done an analysis of some alternative levels of guarantee that is fiscally manageable? Have you looked at that in terms of alternate guarantee?

Mr. REEDER. Well, the statute requires us to provide a report to Congress when we determine that we are going to go insolvent. And I think the time is coming up for that, and we need to figure out exactly how we're going to ramp down the guarantee level as we approach insolvency. We don't have a concrete plan in that regard yet.

Mr. MITCHELL. Is PBGC prepared to administer a loan program that's been discussed in order to help basically push off some of these catastrophes at this point?

Mr. REEDER. Not currently. Loan programs that exists in the government already are generally administered by the Treasury Department or other departments.

I don't want to be too cheeky in saying that the assistance that we give to insolvent plans already is technically a loan, and we don't collect those very well.

Mr. MITCHELL. You can be cheeky here. It's OK.

Let me just make one more comment, which probably is more cheeky than likely. I think we need to be very careful when we talk about fully funding or using taxpayer funds for fully funding plans that decisions were made, such as the one you described, on increasing benefits when you can, but then you can't ramp them back, because the taxpayers didn't participate in those decisions.

So while we do not want anybody—my dad was a retiree from General Motors—to end up without a pension, we need to be careful to balance that, because otherwise we create an incredible incentive to be irresponsible, frankly.

So your recommendations will be appreciated. We need to look at those loan—what the alternatives to the loan programs are, and let's ask those questions and see a response.

Thank you. I yield back. Thank you, sir.

Chairman WALBERG. I thank the gentleman.

Before I recognize our next questioner, I'm noticing my ranking member's tie. It reminded me of the beautiful University of Michigan maize and blue. But I was also in the stands at the Big House this past Saturday and enjoyed the first half very much.

But I would be remiss if I didn't congratulate my colleague from Ohio, the Buckeyes, for your, doggone it, for another win that continues on.

Ms. FUDGE. Thank you.

Chairman WALBERG. But there is always next year.

So I recognize my friend and colleague from Ohio, the Buckeye State, the victor State this past Saturday, Ms. Fudge.

Ms. FUDGE. Thank you, Mr. Chairman. And since it is my alma mater, I really wasn't going say anything, but since you did, maybe next year.

Chairman WALBERG. I think you channeled me.

Ms. FUDGE. Thank you so much, Mr. Chairman.

And I thank you, Director, for being here today.

Just a couple really quick questions for you. Should the agency become insolvent, is there any mechanism by which the government steps in absent congressional action?

Mr. REEDER. No.

Ms. FUDGE. So you need us to act. OK. That's No. 1.

No. 2, I don't like to really talk in abstract. My colleague Mr. Norcross asked you about the maximum benefit that could be received should the worst happen. What is the floor? You said the maximum may be $2,000. What would be the floor?

Mr. REEDER. It would be the benefit promised under the plan. And many plans don't promise a benefit that's even that high.

Ms. FUDGE. At all. OK.

Mr. REEDER. Yes.

Ms. FUDGE. So then tell me, what do you think would happen if some of the people sitting here were to only get $1,000 or $2,000,

on our economy, should they not be able to buy medication, should they not be able to maintain their homes, or should they not be able to send their children to school? Tell me what the economic benefit, if you know, would be if we reduce benefits to a level that people can't even live on.

Mr. REEDER. I don't have hard numbers, Congresswoman, but I do know that many of these multiemployer plans have participants that are concentrated in geographic areas where the effect of a catastrophic decline in their income would have a similar effect on the entire community.

Ms. FUDGE. Could this happen before 2025?

Mr. REEDER. Yes, it could.

Ms. FUDGE. So we really know that there is some urgency. It may not be 2025. I agree with our chairman that we haven't done this in more than 30 years. It is time to do it. And I think that it's great to look back on mistakes that were made, but the people who are going to be punished today had nothing to do with those mistakes either. And if we make people a promise, we should keep our word.

So I understand that there were problems. We need to find a way to solve it. So my next question to you is, if there were any one thing you would suggest that we do to try to make this a better situation, what would that thing be?

Mr. REEDER. I have to say increase the premiums to keep PBGC afloat long enough to make the promises that the PBGC has made—you limited me to one—because that's, I think, maintaining the government's promise is the most important promise of all. And if you can achieve that, then you ought to also think about trying to figure out a way to have the plans maintain their promise.

Ms. FUDGE. OK. And last I would say to you, how many people do you think would be affected by an insolvency, immediately, how many people, just sheer numbers?

Mr. REEDER. A least a million, probably closer to a million and a half.

Ms. FUDGE. And that is catastrophic.

I thank you, Mr. Chairman. And I yield back.

Chairman WALBERG. I thank the gentlelady.

I recognize now my friend from Georgia, one who has had concerns about employees and their future and benefits, Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman. And I won't talk about college football, although the Iron Bowl, I am pretty happy about the outcome of the Auburn-Alabama game. But we are here for a serious conversation this morning, and it sounds very serious.

You know, I'm trying to find out exactly, it seems like we're kind of going around the issue here. It's obvious that people paid into a program, paid premiums, and that the labor organizations and the employers adjusted benefits at will, disregarding the premiums that were being paid in. And how in the world were they able to do that? I mean, how could they just decide they were going to give greater benefits without any regard to the future solvency of the program?

Mr. REEDER. I don't believe that anyone would say that trustees made a decision on benefits without regard to the funding level of the plan. I do believe they all sincerely believed when they made

a promise that the assets would be available to pay that promise based on actuarial valuations that they were doing at the time.

However, some plans, probably a majority of the plans, made the promise in a way that it could be adjusted in the future, and they made those adjustments when the economic conditions required it. And they increased contributions from the employer when the economic conditions required increased contributions.

And we're talking about, as the Congresswoman mentioned earlier, we're talking only about 1 million, 1.5 million people. There's 8 million, 8.5 million people out there that are not going to have any problems and the multiemployer program is doing very well for them. And I think Congressman Norcross mentioned that there are plans that are doing just fine out there and it's difficult to extract higher premiums from them.

Mr. ALLEN. Why are some programs doing well and we've got this one group that is upside down? And like you said, it's going to be an exponential cost to somebody, potentially taxpayers, where we already have a Nation that's 20 trillion dollars in debt. I mean, it's not taxpayers that are going to be funding any kind of assistance here. It's going to be, I don't know, four, five, six generations from now. I mean, we're not funding anything basically right now because of the deficit. It's all being passed down several generations.

So what is the difference in the premiums in the programs that are successful or the single-employer programs and the programs that are in financial trouble? What's the difference in the premiums?

Mr. REEDER. They're a pretty incredible difference. The multis pay $28 a head flat. The singles pay $74 a head flat. So already you're talking nearly three times as much, plus $38 per $1,000 in underfunding, and that's capped at $523 per participant.

So a single-employer plan can have a benefit—a premium of up to nearly $600 per participant if they're poorly funded.

Mr. ALLEN. So it sounds like somebody was misled here. In other words, they said: You pay in this amount, you're going to get this benefit. They're not going to get it. Is that a correct Statement, based on your concern presently?

Mr. REEDER. Yes, I do think that $9 until 2012 per participant was too little to provide the insurance that we were providing.

Mr. ALLEN. Who is responsible for that?

Mr. REEDER. Congress sets the premium rate. The premium rate is set by Congress. So, as I mentioned earlier, there's been a lot of proposals to allow the PBGC to set the premium rate, but Congress sets the premium rate.

Mr. ALLEN. OK.

Mr. REEDER. You may be talking about the contribution rate, and the contribution rate is collectively bargained. That's the amount that employers pay out of the employee's salary to pay the benefit.

Mr. ALLEN. So Congress has been unwilling to raise the premium because of what reason?

Mr. REEDER. I have a difficult time answering that question. Premiums, I think, are largely regarded by plans, and in the single world by employers, as a tax. And we don't like to raise taxes. And

it's technically not a tax but it feels like a tax, especially if you're well funded. So it's not easy to raise premiums.

Mr. ALLEN. Well, I'm asking these questions. I've only been here, this is my second term, and I've learned a lot here.

Chairman WALBERG. The gentleman's term has expired.

Mr. ALLEN. I yield back.

Chairman WALBERG. You'll have plenty more opportunities to hear this, and that's why we're doing it today.

I now recognize the gentlelady from Delaware, Ms. Blunt Rochester. I don't recognize her.

I recognize the gentleman from New York, Mr. Espaillat.

Mr. ESPAILLAT. Thank you, Chairman.

Mr. Reeder, I had the pleasure of going to one of the UPS garages in the morning when they were having sort of like roll call. I was very impressed with the number of young people, both men and women, that work for that company, the kind of safety measures they take into consideration on a daily basis to ensure that everybody is safe, the professionalism that they had there, including also their starting salary. These are young people that are making about $74,000 a year. They have a pretty good health plan and what should be a pretty good pension plan.

So this is an example of a union company that I think is emblematic for our Nation, what our Nation is, what it should be in the future, but yet they have this looming pension issue, right?

And of course you have said that you support not only a potential reduction in the benefits, but also an increase in the premiums and potentially some infusion of cash loans to these pension plans.

With regard to the moneys, the infusion of dollars, what level do you think this should occur? What's the game plan? What's the length, the period, the calendar period for this to be paid back?

This is critical. Lots of companies go under because they're saddled with these pension issues, and then of course they can't cover their employees, and then companies like UPS gets saddled with this responsibility.

What is, in terms of the infusion of cash and in terms of the reduction of benefits, what can you live with?

Mr. REEDER. I want to make sure that I don't get misinterpreted as supporting benefit cuts. I did mention that as a proposal that has been made, and I think the ultimate solution may be difficult to get without some kind of a benefit cut. And I do believe the UPS proposal has a benefit cut in it.

But we don't have a specific recommendation as to infusion level. The administration is not supporting—I won't say they're not supporting—they have not proposed, they have not voiced an opinion on infusions of cash into the multiemployer system. The only thing on the table in our world is a premium increase.

Mr. ESPAILLAT. But you said that if we do nothing this it's doomsday down the road. And in fact these companies, a good company like—union company like UPS, may find itself in real deep trouble, further exacerbating this general pension problem across the country.

So what do you suggest? You don't want to itemize sort of like the pension—the benefits that you will be willing to—or we will be willing to live with if they're cut, we don't have an idea on the level

of infusion that should come forward and the timetable. What is the recommendation then?

Mr. REEDER. Like I said, I am focused, I am laser focused on the guarantee that we provide. And we think that premium increases that get us $16 billion over the next 10 years, and that continue after that 10 years, will keep us afloat for at least two decades.

But, again, I'm focused on the level of our guarantee. And I think most of your question focuses on the level of the promised benefit.

Mr. ESPAILLAT. Let me remind you that you're talking about premium increases and you, yourself, have said that companies consider this to be a tax, this very same week as we are talking about so-called tax cuts. So the environment coming from the White House and the majority is not one that lends itself to the survival of this great company, American company, UPS, who we should all protect.

I'll yield, Mr. Chairman, I'll yield the remaining part of my time to Congressman Norcross.

Mr. NORCROSS. Thank you.

Just a real quick question. You keep talking about the premium increase. You told me it would not save the pension plan. So let's remind that just extends life support for a very short period of time.

Bankruptcy, the No. 1 issue in causing the deficit in this, the position in bankruptcy. Wouldn't you agree?

Mr. REEDER. Yes. I don't know if it's No. 1, but it's very high, yes.

Mr. NORCROSS. With all the calculations we've seen, by far, that and obviously the downturn. We just want to make sure, this was caused by other companies going out of business and those healthy companies that remain take on this liability. Those making incorrect decision with investments have liability, but it's miniscule when we compare it to the unfunded liability by those who went bankrupt.

And I yield back. Thank you.

Chairman WALBERG. I thank the gentleman.

And I recognize the gentleman from Pennsylvania, Mr. Smucker.

Mr. SMUCKER. Thank you, Mr. Chairman.

Thank you for being here.

I want to followup to some of the comments that Mr. Allen had made earlier. And I'm even newer than he is. My first term. So really just beginning to grasp the magnitude of the problem.

And I certainly believe that those who worked hard all their lives and saved responsibly and have counted on that pension that they were promised deserve to receive that pension. It is certainly not the beneficiary's fault that the pension fund was poorly structured.

On the other hand, as was just mentioned, businesses who are left shouldering this may not have been party to making what turned out to be bad decisions as well, and certainly concern with any impact that this would have on taxpayers who don't benefit from the plans at all.

So it is a tough problem and I'm only beginning to understand exactly how it works.

I specifically want to go back, and you may have mentioned this before, and I apologize if you did, but tell me more about the dif-

ference between the single-employer plans and the multiemployer plans. One, the single fund is doing much better than the multiemployer. Is that primarily because of the premium level that you just described, where single-employer plans are, you said, I think, are paying $74, and multiemployer pension are only paying $28? Is that why one is more solvent than the other?

Mr. REEDER. I think that's a very high ranking. If I rank the reasons, I think that would be very high, one or two or three.

But also the fact that in the multiemployer world a single employer bargains for a compensation package that includes pension and health and everything with the union. And once they come to an agreement on how much the employer is going to have to pay toward the pension plan, the employer makes that contribution to the pension plan. And then the trustees of the pension plan determine what the benefit is.

So you have two different entities, technically different entities making the "how much you contribute" decision and the "what the benefits are" decision. In the single world, it's the employer decides to provide this benefit, and they are on the hook for the entire benefit.

Mr. SMUCKER. So is it a lack of accountability on the multiemployer side?

Mr. REEDER. Accountability is a pretty strong word. I don't think—I wouldn't use that word. But I think there is a disconnect between the people who—the process for deciding on how much to contribute to the plan and the process for—

Mr. SMUCKER. It sounds to me like a structural—you don't like to use the accountability—but the decisions made in regards to the benefit do not align with the decisions that are being made to pay for the benefit.

Mr. REEDER. I think the bargainers are very much aware of the benefit levels and the deficit levels of the plan, and so they bargain accordingly. So I don't, I wouldn't accuse anybody of shirking their duties.

Mr. SMUCKER. I don't intend—that's not what I'm implying. But I want to understand premiums. Paid by the employers?

Mr. REEDER. Yes.

Mr. SMUCKER. Entirely?

Mr. REEDER. Yes.

Mr. SMUCKER. And there are many good multiemployer plans that you said are solvent.

Mr. REEDER. I'm sorry. You're asking about the single world. In the single world, they're paid by the employers. In the multi-world, they are paid by the plan. They come out of plan assets

Mr. SMUCKER. Which ultimately who is paying for that, then?

Mr. REEDER. I think the economist would say the participants are paying because it comes out of that package of compensation that the employer pays, part of which goes to the plan. So that's an increase in obligation of the plan.

Mr. SMUCKER. So multiplans, there are some that are solvent and some that aren't. When premiums are raised, is that on all plans or only on those that are insolvent?

Mr. REEDER. Well, an insolvent plan wouldn't pay any premiums at all. They are already receiving assistance benefits from the

PBGC and it would be counterproductive for us to collect money and then give the money back.

And as I said, if there were a variable rate premium, the PBGC would forgive some of that. But right now, under current law, the premiums are paid by all plans that are not terminated.

Mr. SMUCKER. Thank you. I have a lot more questions but I see I'm out of time. So thank you.

Chairman WALBERG. I thank the gentleman.

I recognize the gentlelady from Oregon, Ms. Bonamici.

Ms. BONAMICI. Thank you very, Mr. Chairman. And thank you for holding this hearing.

Thank you, Director Reeder, for testifying.

This is a critical issue. Protecting retirement security is crucial. And I'm here advocating for the thousands of workers and retirees in northwest Oregon—although my grandfather was a miner—who count on getting the benefits they have earned.

And as you State in your testimony, Director Reeder, if the PBGC multiemployer program becomes insolvent, the result will be catastrophic for current and former workers, for retirees, beneficiaries, and for their families.

So in your testimony, Director, you State that in the Pension Benefit Guaranty Corporation, $67.3 billion in liabilities in the multiemployer program; $62.7 billion of that is for 47 plans that are ongoing and have not terminated.

You add that these are plans that the PBGC expects will exhaust plan assets and need financial assistance within 10 years. That was also indicated in your recent report. The ongoing financial decline of several large multiemployer plans are expected to run out of money in the next decade.

So unless Congress acts, the PBGC is unlikely to be able to provide that financial assistance. And as you noted, the result will be catastrophic.

I understand it is important that the PBGC does not publicly name the 47 plans for the same reason the FDIC would not want to name the banks it predicts might fail. But generally speaking, will you please discuss the demographics of these plans, the types of workers and employers and employees participating in these plans, and where they are located in the United States?

Mr. REEDER. I think the short answer is they are everywhere. And there are plans that have been before you, and so I don't think that there's too much—and they're represented by members sitting behind me—so I don't think there's too much secrecy in two of the very large plans.

But I think that's underrepresentative of where the people live in those 47 plans. And I have to say that there's more—there's actually more than 47 plans because we excluded from that number very small plans. But I think it's safe to say they are all over the United States.

Ms. BONAMICI. Is it reasonable to assume that people in the district of every Member of Congress, or at least most of them, will be affected by the economic fallout if these plans fail?

Mr. REEDER. I believe so. I believe so. Nearly every district. It's hard to imagine a district that wouldn't be affected.

Ms. BONAMICI. So I quoted your Statement from your testimony about what's at stake. Can you talk a little bit about, from your perspective, how this might affect our communities, our economy, and our families?

Mr. REEDER. Yes. I think there are plans that are concentrated that have retirees and active workers in more concentrated areas and there are some plans that are spread out. But a lot of these plans are in the industrial world, a lot of these plans have communities where they're dependent upon the incomes that the people get from the pension plan.

And when the pension plan dries up and it goes down to the PBGC level—or below if we become insolvent—it will be devastating on the community because the grocery store and the hardware store and the guys who mow the lawns, they depend on income from those people.

Ms. BONAMICI. Absolutely.

Well, thank you, Director Reeder. And it's pretty clear that Congress must act as soon as possible. I think your testimony uses the word urgent. There's an urgent need to address this. And every day that Congress delays in making changes to improve the solvency of the multiemployer program, the more egregious the problem become for participants, plans, employers, and the PBGC. We certainly need that action on the part of Congress.

And I'm proud to be one of the 39 original cosponsors of the Rehabilitation for Multiemployer Pensions Act, which was recently introduced by the Ways and Means ranking member, Mr. Neal. This bill will provide an innovative way to help financially troubled plans through loans financed through the proceeds of Treasury bonds. And I urge my colleagues on both sides of the aisle to work with us on this issue so we can reach a meaningful solution for our constituents across the country.

And I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman WALBERG. I thank the gentlelady and for your words. That indicates you're very much committed to solutions. Thank you.

Now I recognize the proud Representative from Georgia, Mr. Ferguson.

Mr. FERGUSON. Thank you, Mr. Chairman. And before we get going, I would be remiss if I didn't comment on my colleague from Georgia's comments about Auburn winning the Iron Bowl. We're coming for you this weekend in the SEC championship game. Go Dawgs.

Chairman WALBERG. Your time is being used with this.

Mr. FERGUSON. I understand, but it's an important comment, Mr. Chairman.

Thank you so much for coming today. And I want to agree with your Statement that this is an urgent issue, and also want to express my support for thoughtfully weighing in on our policy decisions and what our options may be. And I think getting ahead of this is going to be very important.

It's only fair to the men and women that have worked so many years to guarantee that they've got some sort of comfortable retirement. And it's only fair to keep the promises that were made. So

how we get there, I think it's important to recognize that folks on both sides of the aisle are trying, very intentionally, to find a good solution.

So with that, a couple of quick questions for you.

How many multiemployer plans have failed already?

Mr. REEDER. They're in the low seventies. I believe 72.

Mr. FERGUSON. And how many participants in those plans have had their benefits cut before passage of the MPRA?

Mr. REEDER. I don't know how many of them are cut, but the number of participants in those plans is 63,000. But not all of those were cut. If their promised benefit level was below our guarantee they weren't cut.

Mr. FERGUSON. All right. How many pension plans for union executives have failed or are failing?

Mr. REEDER. I can't—I couldn't tell you.

Mr. FERGUSON. OK. That's fine.

So another question I have, and I want to go back to something that my colleague from Michigan, Mr. Mitchell, touched on, and that's the reporting data. I'm just curious, does the PBGC have the ability to go into these plans and get very detailed data as a condition of ensuring the plans? And I guess kind of in my mind what I'm looking at is how the FDIC would look at going into a bank and getting information and data. Do you have the same access?

Mr. REEDER. We don't.

Mr. FERGUSON. I think it's pretty important that Congress have that data. I mean, if we're going to get involved in this conversation and be part of the solution, I think that it's really important that we consider getting that data.

How would you suggest that is accomplished? Is that something that needs legislative authority to do? Is that something that you do administratively? What's the right pathway there?

Mr. REEDER. Well, I apologize for being too brief in my answer and saying we don't. There's nothing that that's simple.

We do collect a lot of data. We could use more data. But additional data not only costs to produce and report, but it costs to analyze and use it appropriately. So I do think that we are probably pushing the limit on what we can collect legally.

Mr. FERGUSON. Well, sir, not having access to that data, not analyzing it, not understanding the problem is about to cost us all a lot. So it may be wise money spent to understand exactly what's going on in these plans, for the plans to be as transparent as possible. I think every single one of us, whether it's Republican or Democrat, before we go and make a sizable commitment to be able to keep these promises, we need to understand those plans in the most transparent way possible.

So I would say that not having access to that data and not analyzing it is probably way more costly than what you just described.

But anyway, thank you so much for being here, and thank you for offering. I look forward to future conversations.

And, Mr. Chairman, I yield back.

Chairman WALBERG. I thank the gentleman.

I recognize the gentleman from Connecticut, Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman.

And thank you, Mr. Reeder, for your thoughtful, helpful testimony here today.

Again, I just wanted to see if we could focus, again, in terms of what the scope of the problem is in terms of families and individuals that are at risk. Again, your testimony said that multiemployer plans basically benefit about 10 million individuals?

Mr. REEDER. Yes.

Mr. COURTNEY. And those are the actual awardees or recipients of pension payments—

Mr. REEDER. No.

Mr. COURTNEY [continuing]. as opposed to the size of their families?

Mr. REEDER. Yes, that's the participants, but they're not all in pay status.

Mr. COURTNEY. I see.

Mr. REEDER. Some of them are active employees.

Mr. COURTNEY. That's right. So they're not eligible yet, right.

So the population, given the fact that these are like breadwinners or the retirement benefits put food on the table for other family members, is really—it's bigger than 10 million people, right?

Mr. REEDER. Yes.

Mr. COURTNEY. Without putting you on the spot in terms of an exact number.

And the exposure in terms of what you indicated that the math shows right now is about $65 billion, is the shortfall that is looming?

Mr. REEDER. Yes. For us, yes.

Mr. COURTNEY. Right. So, again, just to try and put this in perspective, I mean, I was around here in 2008 when this institution moved at Mach speed to bail out the banks, to the tune of about $800 billion, and there really wasn't much asked in return in terms of the banks taking a haircut. There were no premiums they had to pay to get TARP payments. And, again, the bill that my colleague from Oregon mentioned, which is not even a payment out, it's really a loan that would be required to be paid back over time, based on investments that would be supervised.

Again, I just think putting that in perspective, compared to what this institution did in 2008, it's actually a fairly modest proposal in comparison. But the benefit, obviously, would be to help 10 million-plus Americans who basically paid into their retirements, assuming that there was going to be a promise kept at the end of the process.

I think also it's important to put in a little bit of perspective that just a couple weeks ago the House voted to cut the estate tax, to eliminate the estate tax, which affects about 0.02 percent of Americans. Again, if you do the math, we're a country of about 300 million people, again, that is a smaller fraction of people who are at risk in terms of what we're talking about here this morning.

And obviously eliminating an estate tax that today has an exemption of $5.5 million for an individual and $11 million for families, that is going to cost the Treasury of this country $200 billion, according to the Congressional Budget Office.

So we're talking about—we just saw this institution pass—I voted no—but a benefit for 0.02 percent of the country of $200 bil-

lion, and we're really looking at a solution for this problem that really doesn't even involve—it involves a loan that would be paid back to the Treasury. And I just think that this is not that hard to fix. And particularly if you look at the history of what this institution has done in other cases, as recently as just a couple weeks ago, these numbers are not as daunting as I think some of the gloom and doom that surrounds this discussion.

And I've been on this committee now for ad nauseam with these hearings, and it's time to just, again, put it in perspective and really come up with what I think would be a manageable, fiscally responsible solution that would protect people's benefits.

I yield back.

Chairman WALBERG. I thank the gentleman.

Now I recognize the gentleman from Wisconsin, whose Wisconsin Badgers will hopefully take care of Ohio State this coming weekend. I don't want to sound like I'm looking for retribution, but I am.

Mr. Grothman.

Mr. GROTHMAN. Thank you. I hope we come through for you.

I was over in another hearing on Government Oversight, so maybe this has been asked before. But I represent a lot of people in the Central States Plan, which, as you know, is a plan that's in a lot of trouble. And a lot of people are scared out there, a lot of people have expectations raised, and all of a sudden fearful that they're going to get nowhere near where they thought they were going to get.

I'm aware that today most people probably are out there on their own 401(k). And a lot of people 10 years ago, they thought they were all set, they had a 401(k), all of a sudden they wake up couple months later, they are down 30 or 40 percent of what they thought they had.

Nevertheless, I think, particularly because of government involvement, it's important that we step up to the plate on these sort of multiemployer plans, particularly Central States.

Could you comment on it at all as far as your vision, first of all, of when we're going to get some finality here, we're not going to wait until the last minute—maybe we will wait until the last minute—but if you think that we will have some sort of solution before the final minute? And second, give us options as to what you think is reasonable as far as helping these folks out?

Mr. REEDER. Yes. I can't give you a recommendation because the answer is political. And the answer is going to have to—political is probably not the right word—the answer is going to require some sort of pain, either from the government, from the participants, from the employers, from the plans themselves. And the allocation of that pain is something that this body does, and it's not easy.

But the answer from the perspective of making sure that the guarantee of the PBGC is good can come from increased premiums better than anything else.

Increased premiums is not the answer for making good the promise that the Central States and other plans have made to their participants. That has to come from either some sort of government funding or participant benefit cuts or a combination of those two.

And I can't hazard a recommendation as to which one of those things.

Mr. GROTHMAN. You feel those two things. And there are two other things thrown out there, which I guess you could call government funding, low interest loans or premium increases. You do not feel those are appropriate?

Mr. REEDER. Well, let me reiterate that I believe that premium increases are not the solution for making the promised whole of the plan. Premium increases make PBGC solvent for when the plan goes under. And so the answer to keeping plans from coming to the PBGC has to be something other than premium increases.

Mr. GROTHMAN. OK. And when do you think right now the Central States fund will run out of money?

Mr. REEDER. They've told their participants that it will happen right about the same time that we go insolvent in 2025.

Mr. GROTHMAN. OK. And so right now, if nothing is done in 2025, 1 month you're getting a check and the next month you're getting nothing?

Mr. REEDER. One month you're getting a check and the next month you're getting almost nothing.

Mr. GROTHMAN. OK. Percentage-wise how much?

Mr. REEDER. Oh, a tiny percent. Less than 5 percent.

Mr. GROTHMAN. OK.

Mr. REEDER. That's assuming that they go under and we go under.

Mr. GROTHMAN. OK. And you feel that there's a—you think a premium increase is inevitable?

Mr. REEDER. I think there's a growing consensus for some level of increase, yes.

Mr. GROTHMAN. What is it right now per employ or per wage?

Mr. REEDER. $28 per participant.

Mr. GROTHMAN. For how long? $28 per year?

Mr. REEDER. Per year.

Mr. GROTHMAN. Per year, OK. And how—we're not going to do it. But, I mean, if you had to cover the whole thing with a premium increase, how big would that increase have to be?

Mr. REEDER. In our report last year to Congress, we said that it would have to be a little bit less than five times that.

Mr. GROTHMAN. OK. And then if you feel you got that much, then at least prospectively the plans would be solvent?

Mr. REEDER. No, no, that only protects our guarantee.

Mr. GROTHMAN. Right.

Mr. REEDER. The plan's solvency is going to have to come from some other source besides premiums. It is going to have to come from increased contributions by employers, benefit cuts, or money from the government.

Mr. GROTHMAN. OK. Thanks much, Mr. Chairman.

Chairman WALBERG. I thank the gentleman.

And now I turn to my ranking member for any closing comments you might have.

Mr. SABLAN. Thank you very much, Mr. Chairman.

Mr. Reeder, I want to make a personal thank you also to you, because in yesterday's meeting and in today's meeting you have gone out of your way, out of your courtesy, to explain this huge

complicated problem and present in a way that I can understand, as much as I can. Thank you.

And I want to also thank you again for being here today and for providing us, the subcommittee members, a clear picture of the looming insolvency in the PBGC's multiemployer pension program.

And I believe that Director Reeder is right when he said in his testimony that if the multiemployer program is allowed to become insolvent, I quote, "The result will be catastrophic for many people—current and former workers, retirees, beneficiaries, and their families," end of quote. I would add that I believe it would also be devastating for businesses and our economy.

Working people, families, retirees, employers, and all of our constituents are counting on Congress to address this crisis and to do so soon. And, Mr. Chairman, I would like at this time to ask unanimous consent to insert into the record a November 8 letter to the Speaker, the Senate Majority Leader, the House Minority Leader, and the Senate Minority Leader, a letter signed by 170 groups representing a cross-section of employers, employee organizations, retiree groups, and other stakeholders.

Chairman WALBERG. Hearing no objection, they will be included.

[The information referred to follows:]

November 8, 2017

The Honorable Paul D. Ryan
Speaker of the House
H-232, The Capitol
Washington, D.C. 20515

The Honorable Mitch McConnell
Senate Majority Leader
S-230, The Capitol
Washington, D.C. 20510

The Honorable Nancy Pelosi
House Minority Leader
H-204, The Capitol
Washington, D.C. 20515

The Honorable Charles E. Schumer
Senate Minority Leader
S-221, The Capitol
Washington, D.C. 20510

Dear Speaker Ryan, Leader McConnell, Leader Pelosi and Leader Schumer,

The undersigned, representing a cross-section of employers, employee organizations, retiree groups, and other stakeholders, write today to urge you to enact legislation that will address the looming multiemployer pension crisis.

Multiemployer pension plans make it possible for workers to accrue benefits in industries so critical to our economy – such as trucking, food services, hospitality, construction and entertainment. Historically, multiemployer plans have been stable pension vehicles for hardworking Americans. The multiemployer pension system covers 10 million Americans, and millions of retirement benefits depend (at least in part) on one or more multiemployer pension plans. In 2015, multiemployer plan participants (actives and retirees) were paid approximately $241 billion in wages and pension payments. Those participants also paid approximately $35 billion in federal and $8.4 billion in state and local taxes.

The multiemployer pension system currently stands on the brink of collapse. This crisis has been caused by tectonic shifts in many of the industries that utilize multiemployer pension plans, and amplified by the 2000 to 2002 and, more importantly, the 2008 market crash and great recession that followed.

Several multiemployer pension funds are projected to be insolvent within the next several years. These troubled plans have already used the tools available under current law, to no avail. That is why Congressional attention and action is needed now -- to provide these plans with other options for recovery. If a solution for multiemployer pension plans is not reached by this Congress before year end, it may be too late to save these systemically important, troubled plans. If these plans become insolvent, the economic responsibility falls to the Pension Benefit Guaranty Corporation (PBGC). The PBGC lacks the resources to address the funding crisis – the PBGC's most recent report projected a $59 billion deficit in the multiemployer insurance fund (in FY 2016, the most recent year for which data is available) and an estimated insolvency of the PBGC multiemployer fund by the end of 2025.

Compounding the problem, the insolvency of one multiemployer pension plan forces the contributing employers to that plan to record significant liabilities, which may cause many of the smaller businesses (that make up the majority of the contributing employers in many plans) to go out of business. The

associated loss of jobs will result in dwindling contributions to, and the more rapid deterioration of, other multiemployer plans.

The failure of the multiemployer system will jeopardize the immediate retirement benefits of hundreds of thousands of retirees, while simultaneously driving many employers out of business. Active workers in these plans stand to lose not only their retirement savings, but their jobs, their income and their insurance. The cascading effect of a failed plan also will affect third-party suppliers and service providers.

The resulting "domino effect" could lead to the start of another recession. This is not a "retiree" issue or a "multiemployer issue". This is a national economy issue. It is an issue that must be addressed now -- before it is too late.

We implore you to help us, and help the country, by focusing on this issue and working intently with your colleagues to provide a comprehensive solution before the end of the year.

Sincerely,

ABF Freight Systems, Inc.
Amit Hasak, President, Fulton Market Cold Storage Co LLC DBA Hasak Cold Storage, Lyons, IL
Anthony J. Cancila, President, Marty Cancila Dodge Chrysler Jeep Ram, Florissant, MO
Aramark, Philadelphia, PA
Associated Wholesale Grocers, Inc., Kansas City, KS
Bimbo Bakeries USA, Inc., Horsham, PA
Bob Brockland Buick GMC, Columbia, IL
Brian O. Ahearn, President and Business Manager, Teamsters Local 577, Amarillo, TX
Bruce L. Stoddard, President & CEO, Parke Warehouses, Decatur IL
Buteyn-Peterson Construction Company Inc., Sheboygan, Wisconsin
Carl Carenbauer, President, Carenbauer Distributing Corp., Wheeling, WV
Chris Gulbrandson, President, Apple Ford Shakopee. Shakopee, MN
Chris Tongay, Secretary-Treasurer, Teamsters Local 688, St. Louis, MO
Christian Chappell, President, Chappell Zimmerman Inc., Salem, OH
Columbian Distribution Services, Inc., Grand Rapids, MI
Compass Group, Charlotte, NC
Corp. Sec. Keith Wallis Jr., Prestressed Casting Co., Springfield, MO
Craig D. Roberts, President, Commerce Paper, Toledo, OH
Craig Rivard, President, North Electric Supply Co., Auburn Hills, MI
Crowley Maritime Corporation, Jacksonville, FL
Dairy Farmers of America, Kansas City, KS
Daniel W. Avelyn, Secretary-Treasurer/Principal Officer, Teamsters Local 554, Omaha, NE
Dave Laxen, Secretary Treasurer/Principal Officer, Teamsters Local 471, Minneapolis, MN
Dave Stark, Stark Excavating, Inc., Bloomington, IL
Dave Trierweiler, President, Trierweiler Construction & Supply Co., Inc., Marshfield, WI
David Kern, Vice President, The Shelly Company, Thornville, OH

David Kieleszewski, President, Sabiston Builders Supply, Warren, MI
David Mashek, Director of Labor Relations & Insurance Risk North America, Votorantim Cimentos, Bridgeview, IL
Dean Foods Company, Dallas, TX
Dennis Cook, President, Sun Prairie Concrete Co Inc.
Dennis Schneider, President, Transervice Logistics Inc.
DHL, Plantation, FL
Diana Strickland, SPHR, VP-HR, Mfg. & Labor and Employee Relations, Tempur Sealy International, Inc., Lexington, KY
Dominic Riggio, President, Riggio Distribution Co., Detroit, MI
Donald F. Brown, President, Don Brown Chevrolet, Inc., St. Louis, MO
Ferguson Block Co., Inc., Davison, MI
Feutz Contractors, Inc., Paris, IL
Frank J. Murnane, Jr., President, Murnane Packaging Corporation, Northlake, IL
Frederick L. Blume, President/Owner, A&B Freight Line, Inc.. Rockford, IL
Garage Maintenance, Machine Warehousemen, Repairmen, Inside Men and Helpers and Plastic Employees, Local Union No. 974, Minneapolis, MN
General Teamsters Local Union No. 200, Milwaukee, WI
Heding Truck Service, Inc., Union Center, WI
Hoyt, Brumm & Link Inc.
Indiana Constructors, Inc.
International Warehouse Logistics Association
Irina Becker, General Counsel, Becker Iron & Metal, LLC, Venice, IL
Jack Cooper Transport Co., Kansas City, MO
James Baumhardt, President, Baumhardt Sand & Gravel, Inc., Eden, WI
James E. Rossel, President, Haier Plumbing and Heating, Inc., Okawville, IL
James McGrath, Executive Vice President, General Counsel, The New York Blower Company, Willowbrook, IL
James Peterson Sons Inc., Medford, WI
Janet M. Kolb, President, Kolb Grading, LLC, St. Charles, MO
Jeff Palmer, President, Palmer Moving
Jeff Spahr, President, Superior Materials Holdings, LLC., Farmington Hills, MI
Jennifer Matthews, Esq., President, Royal Air Freight, Inc., Indianapolis, IN
Joe Popolo, Jr., CEO, The Freeman Company, Dallas, TX
Joe White, President, Edward J. White, Inc., South Bend, IN
John A. Evans, Evans Distributions Systems, Melvindale, MI
John D. Salter, Secretary/Treasurer, Rush Express & Transfer Co., St. Louis, MO
John Fortier, President, Bacco Construction Company, Iron Mountain, MI
John M. Hall, President, John Hall Lumber Co., Washington, MO
John S. Reihl PE, President, StresCore Inc., South Bend, IN
John Wilson, General Counsel, Quality Carriers, Inc., Tampa, FL
Joseph L. Carson, President, United Dairy, Inc., Martins Ferry, OH
Karen Haug, Chief Executive Officer, Advance Shoring Company, Saint Paul, MN
Karen Z. Taff, Madison Sand and Gravel Company, Deforest, WI

Keith E. Gleason, President, Teamsters Local Union 627, Peoria, IL
Ken Williams, Chairman of the Board, Central Storage & Warehouse Co., Madison, WI
Kranz, Inc.
Kurt S. Brandstatter, President, Central Paving, Inc., Logansport, IN
Land O' Lakes Inc., Arden Hills, MN
Lawrence A. Yoswa, President, Teamsters Joint Council 32, Minneapolis, MN
Lee Miller, President, Miller Transporters, Jackson, MS
Leicht Transfer & Storage Co., Green Bay, WI
Linda Brzenk, Barry Trucking Inc., Oak Creek, WI
Louis Cortes, President & CEO, The Standard Group, Louisville, KY
Luther Automotive Group, Minneapolis, MN
Marathon Petroleum Corporation, Findlay, OH
Mark Bruemmer, Secretary-Treasurer/Principal Officer, Teamsters Local 833, Jefferson, MO
Mark D. Saba, President, Dodge of Burnsville, Inc., MN
Mark O'Dell, Owner, Westfall GMC Truck, Inc., Kansas City, MO
Mark Sprowls, Vice President, Overland Metals, LLC, St. Louis, MO
Mathie Supply, Inc., North Canton, OH
Matt Doan, President/CEO, Doan Companies, Ypsilanti, MI
Matthew C. Magor, Chief Executive Officer, Big C Lumber CO., Inc., Granger, IN
McDowell Tire Company, Kansas City, MO
Michael Bommarito, Managing Member, RAM Produce Distributors, L.L.C., Detroit, MI
Michael D. Shepard, President/COO, Collins & Hermann, Inc., St. Louis, MO
Michael Lang, President, Hennes Services, Milwaukee, WI
Mike Lieser, Secretary-Treasurer/Principal Officer, Teamsters Local 610, St. Louis, MO
Mike Martin, President, Teamsters Local Unions 337, Detroit, MI
Mike Moon, VP, Wagner Industries, Inc., North Kansas City, MO
Minnesota Auto Dealers Association
National Beer Wholesalers Association
Nestlé Purina PetCare, St. Louis, MO
Nestlé USA, Inc., Arlington, VA
Patricia Dickens, President, B & D Trucking Co., Peru, IL
Paul Murphy, Jr., Owner, ChemMasters Inc., Madison, OH
Paul Murphy, Jr., Owner, JTM Products Inc., Solon, OH
Paul S. Crow, President/CEO, Tuttle Construction, Inc., Lima, OH
Penske Truck Leasing Co., L.P., Reading, PA
Peoples Cartage, Inc., Canton, OH
Peoria Disposal Company, Peoria, IL
Philip Brooks, CEO, H. Brooks and Company, LLC, New Brighton, MN
Piggly Wiggly Midwest, LLC, Sheboygan, WI
Prairie Farms Dairy, Edwardsville, IL
Ralph Stubbs, Teamsters Local 41, Kansas City, MO
Randal C. Hyde MBA, SPHR, Director of Human Resources and Labor Relations, Hiland Dairy Foods Co. LLC, Springfield, MO
Reymond Products International, Inc., New Philadelphia, OH

Richard C. Collinson, President, Teamsters Local 20, Toledo, OH
Richard L. Suhre, President/CEO, Cassens Transport Co., Edwardsville, IL
Richard Murphy Jr., President/CEO, Murphy Warehouse Company, Minneapolis, MN
Richard S. Mergel, President, C. J Link Lumber Company, Warren, MI
Rob Jones, President, Helmkamp Construction Co., East Alton, IL
Russell King, President, LaKing Trucking Inc., Lima, OH
Ryan Daniel, Chief Executive Officer, St. Cloud Metropolitan Transit Commission, St. Cloud, MN
Schnuck Markets, Inc., St. Louis, MO
Scott Fox, President, Universal Oil, Cleveland, OH
Shelley Roth, President, Royal Ice Cream Company, Cleveland, OH
Spangler Candy Company, Bryan OH
SpartanNash, Byron Center, MI
Sterling Boiler & Mechanical, LLC, Evansville, IN
Steve Fidler, President, Kuert Concrete, Inc., South Bend, IN
Susan J. Happ, President, Mertel Gravel Company, Inc., Peru, IL
Susan Polito, M&M Truck Parts Sales Inc., Menominee, MI
Susan Polito, Stang Sales & Service, Menominee, MI
Teamsters Local 114, Cincinnati, OH
Teamsters Local 1145, Blaine, MN
Teamsters Local 120, Blaine, MN
Teamsters Local 160, Rochester, MN
Teamsters Local 215, Evansville, IN
Teamsters Local 238, Cedar Rapids, IA
Teamsters Local 26, Champaign, IL
Teamsters Local 289, Minneapolis, MN
Teamsters Local 320, Minneapolis, MN
Teamsters Local 346, Duluth MN
Teamsters Local 600, Maryland Heights, MO
Teamsters Local 604, St. Louis, MO
Teamsters Local 618, St. Louis, MO
Teamsters Local 638, Minneapolis, MN
Teamsters Local 662, Mosinee, WI
Teamsters Local 682, St. Louis, MO
Teamsters Local 695, Madison WI
Teamsters Local 696, Topeka, KS
Teamsters Local 722, La Salle, IL
Teamsters Local 792, Minneapolis, MN
Teamsters Local 90, Des Moines, IA
Teamsters Local 955, Kansas City, MO
Teamsters Local 970, Minneapolis, MN
Teamsters Local 997, Fort Worth, TX
The American Benefit Council, Washington, DC
The Associated General Contractors of Illinois
The Kroger Co., Cincinnati, OH

The Ohio Contractors Association
The Southern Illinois Builders Association
Thomas E. Youngblood, Chairman, Youngblood Lumber Co., Minneapolis, MN
Thomas J. Kraemer, President, U.S.M.M., Inc., dba U.S. Machinery Movers, Skokie, IL
Tim Cooling, CFO, Cooling Land Concepts, LLC, Cherry Valley, IL
Tim Odum, Vice President, Odum Concrete Products, Inc., Marion IL
Tucker Tire Service, Inc., St. Louis, MO
United Parcel Service, Atlanta, GA
Victor Rothstein, Owner, Anderson Brothers Storage and Moving, Chicago, IL
Vinton Construction Company, Manitowoc, WI
William Comstock, Business Manager, SMART Local No. 1, Morton, IL
William Doetsch, President, PROS Services, Inc., Port Huron, MI
William J. Goodman, Wallboard, Inc., Butler, WI
William L. Kinney, President, Kinney Contractors, Inc., Raymond, IL
William M. Frisky, Secretary-Treasurer, Teamsters Local Union No. 964, Brook Park, OH
William Ziegler, President, Madison Crushing & Ex. Co. Inc., Madison, WI
Willis Day, Secretary, Willis Day Storage Co., Toledo, OH

Mr. SABLAN. Thank you, sir.

And it is my hope that today's hearing is a first step toward solving that goal, toward finding a solution to this problem. And as we hopefully proceed toward a bipartisan legislative solution, subcommittee Democrats and I believe we must do our best to protect Americans' hard-earned pensions. They worked and sacrificed over a lifetime, and they deserve to retire with financial security.

The pension that these workers earned throughout their careers should be there for them when they retire. That's not a bailout. That's keeping a promise.

Again, I want to thank Chairman Walberg for his courtesy and for holding this important meeting.

And Mr. Chairman, I yield back. Thank you.

Chairman WALBERG. I thank the gentleman.

And I, too, would like to thank Mr. Reeder for being here. Sadly, I'm sure you recognize, you didn't even have the benefit of the sword of Solomon to come up with an absolute solution that would be—well, I mean, the fact that you provided testimony here today that had great clarity of the facts, but also the clarity of your caution relative to solutions.

This has been a hearing on PBGC, and it was for that purpose. All of the other issues relative to PBGC are fair game here, and I think we have to get to those discussions as well.

But I think this really established some sense of clarity of the challenge that we have and the size of the problem, the difficulty of solutions. And I think as well it showed us the impact of decisions that were made and promises that were made. So thank you.

We have an expression around here: Don't let the perfect be the enemy of the good. Well, there is no perfect in this situation, so we don't even have to worry about that be an expression we talk about, but there needs to be some sort of solution.

And so I certainly commit to the members of this subcommittee on both sides of the aisle, as well as to you, Mr. Reeder, and I think as important, if not more so, to those individuals that have come here, who are really in the throes of this issue as retirees, as employees, as businesses, that I see out here as well that have a very personal involvement with this problem, that we intend to work toward a solution—not perfection, but work toward a solution—and to continue hearings to find that agreement.

So having done that, having had this hearing, and seeing no other questions or testimony is to be given, and you and I being here together at this point in time to finish this off, I declare this hearing concluded and adjourned.

[Questions submitted for the record and their responses follow:]

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April 20, 2018

The Honorable W. Thomas Reeder
Director
Pension Benefit Guaranty Corporation
1200 K Street, NW
Washington, DC 20005

Dear Director Reeder:

Thank you again for testifying at the November 29, 2017, Subcommittee on Health, Employment, Labor, and Pensions hearing on "Financial Challenges Facing the Pension Benefit Guaranty Corporation: Implications for Pension Plans, Workers, and Retirees."

Please find enclosed additional questions submitted by Committee members following the hearing. Please provide a written response no later than May 11, 2018, for inclusion in the official hearing record. Your response should be sent to Olivia Voslow of the Committee staff, and she can be contacted at (202) 225-7101.

We appreciate your contribution to the work of the Committee.

Sincerely,

Tim Walberg
Chairman
Subcommittee on Health, Employment, Labor, and Pensions

Enclosure

Questions for the Record
Hearing: "Financial Challenges Facing the Pension Benefit Guaranty Corporation: Implications for Pension Plans, Workers, and Retirees"
November 29, 2017

Ranking Member Sablan (MP)

1. The PBGC's maximum guarantee in its single employer program is presently $64,432, and it will increase to $65,045 in 2018. Meanwhile, the maximum guarantee in the multiemployer program is $12,870. The multiemployer guarantee has not been increased since 2001, and is not indexed for inflation. I am concerned whether a retiree can sustain a secure retirement, or even survive, on $12,870 — at most. Has the PBGC and/or the Administration done an analysis and/or produced any estimate on what it would cost to raise the maximum guarantee by $500, $1000, $5000, $10,000 or if Congress doubled it? If so, please provide that complete analysis and/or estimate to us and include a summary of it.

Rep. Ron Estes (KS)

1. Is it in the best interest of the PBGC to keep troubled plans solvent and avoid PBGC assistance and benefit reductions to the PBGC levels?

2. The FY2017 PBGC Annual Report states the Single-Employer Program has a $10.9 billion deficit. PBGC collected approximately $6.7 billion in premiums. How do you value PBGC's statutory directive/right to receive nearly $7 billion in premiums every year in this deficit calculation?

Questions for the Record
Hearing: "Financial Challenges Facing the Pension Benefit Guaranty Corporation: Implications for Pension Plans, Workers, and Retirees"
November 29, 2017

Ranking Member Sablan (MP)

1. **The PBGC's maximum guarantee in its single employer program is presently $64,432, and it will increase to $65,045 in 2018. Meanwhile, the maximum guarantee in the multiemployer program is $12,870. The multiemployer guarantee has not been increased since 2001, and is not indexed for inflation. I am concerned whether a retiree can sustain a secure retirement, or even survive, on $12,870 - at most. Has the PBGC and/or the Administration done an analysis and/or produced any estimate on what it would cost to raise the maximum guarantee by $500, $1000, $5000, $10,000 or if Congress doubled it? If so, please provide that complete analysis and/or estimate to us and include a summary of it.**

RESPONSE

Under current law PBGC guarantees a multiemployer plan participant's monthly benefit up to 100% of the first $11 per year of service *plus* 75% of the next $33 per year of service. For example, for a participant who has 30 years of service, PBGC guarantees the plan benefit up to $12,870 per year [[$11(100%) + $33(75%)] x 30 = $1,072.50 per month or $12,870 per year].

PBGC has estimated the cost of three alternatives that would result in higher guarantees than are payable under current law. Alternative 1 doubles the guarantee under the current two-tier structure. Alternatives 2 and 3 significantly increase the guarantee under the 100% guarantee tier and eliminate the 75% tier.

The table below shows the estimated cost (i.e., financial assistance payments that insolvent plans would need to pay guaranteed benefits) under the current law and the alternative guarantees, over 10 and 20 years. The 20-year cost is more than double the 10-year cost because more and larger plans are expected to require financial assistance from PBGC over time. The analysis assumes that the alternative guarantees would be applied only to plans that become insolvent in the future and not to plans that are already receiving financial assistance. The analysis also assumes a change in law to provide PBGC enough money to pay these amounts, but no other changes in law.

Comparative Cost of Current Law and Alternative Monthly Benefit Guarantee Levels			
		Estimated PBGC Financial Assistance to Insolvent Plans [1]	
		FY 2018 –2027 (10 years)	FY 2018 –2037 (20 years)
Current law	100% of the first $11 per year of service *plus* 75% of the next $33 per year of service	$11.4 billion	$47.0 billion
Alternative 1	Double the current guarantee to 100% up to $22 *plus* 75% of the next $66	$16.7 billion	$71.8 billion
Alternative 2	Guarantee 100% up to $50 per year of service	$15.1 billion	$63.0 billion
Alternative 3	Guarantee 100% up to $100 per year of service	$18.0 billion	$80.0 billion

[1] The analysis assumes that the alternative guarantees would be applied only to plans that become insolvent in the future and not to plans that are already receiving financial assistance. The analysis assumes a change in law to provide PBGC enough money to pay these amounts, but no other changes in law.

Rep. Ron Estes (KS)

1. **Is it in the best interest of the PBGC to keep troubled plans solvent and avoid PBGC assistance and benefit reductions to the PBGC levels?**

RESPONSE

Under current law, PBGC pays financial assistance to insolvent multiemployer plans to enable them to pay benefits at the PBGC-guaranteed level. Financial assistance also covers reasonable administrative expenses of insolvent plans.

In PBGC's most recent Projections Report (FY 2017), the agency projects that the assets of the Multiemployer Insurance Program are highly likely to be depleted during FY 2025, making PBGC insolvent, absent a change in law. Of course, the amounts that the Program would need to avoid insolvency would be much less if troubled plans were able to remain solvent without PBGC financial assistance.

When the Multiemployer Insurance Program becomes insolvent, the only money available to pay financial assistance will be annual premium payments from multiemployer plans. These premium payments under current law fall far short of amounts needed to pay guaranteed benefits. The consequences will be financially devastating for many plan participants and their families.

The President's FY 2019 Budget contains a proposal to shore up the Multiemployer Program. The budget proposes to create a new variable rate premium and an exit premium in the Multiemployer Program, estimated to raise an additional $16 billion in premium revenue over the 10-year budget window. The proposal includes a provision allowing for a waiver of the additional premium if needed to avoid increasing the insolvency risk of the most troubled plans.

2. **The FY2017 PBGC Annual Report states the Single-Employer Program has a $10.9 billion deficit. PBGC collected approximately $6.7 billion in premiums. How do you value PBGC's statutory directive/right to receive nearly $7 billion in premiums every year in this deficit calculation?**

RESPONSE

PBGC's annual financial statements provide a snapshot of the assets and liabilities of each of PBGC's two insurance programs. PBGC's balance sheet includes accumulated premiums that were paid or receivable for periods before the end of PBGC's fiscal year. PBGC's financial statements do not include the value of premium payments expected for future fiscal years.

Premiums that PBGC expects to receive in future fiscal years are reflected in PBGC's annual Projections Report, which is published separately from the financial statements. The FY 2017 Projections Report includes a 10-year projection of the financial position of the Single-Employer Program and the Multiemployer Insurance Program. The starting point for the projections is the financial position of each program at the end of the fiscal year preceding the projection period.

PBGC premiums are set by Congress. The premium structure for the Single-Employer Program consists of a flat-rate per participant amount and a variable-rate premium on unfunded vested benefits, subject to a per participant cap. For plan years beginning in 2019: the flat-rate premium is $80 per participant (up from $74 for 2018); and the variable-rate premium is $43 per $1,000 of unfunded vested benefits (up from $38 in 2018). For 2019, the variable-rate premium is capped at $541 times the number of participants (up from a 2018 cap of $523). After 2019, all rates are subject to indexing. There are no scheduled increases (other than indexing) for plan years beginning after 2019. The FY 2017 Projections Report estimated $37 billion as the average (mean) present value of single-employer premiums over the 10-year period FY 2018 - FY 2027.

[Whereupon, at 11:49 a.m., the subcommittee was adjourned.]