TO: Pension Plan Participants

FROM: Board of Trustees

DATE: September 7, 2018

RE: Congressional Budget Office ("CBO") Update of Brown-Neal Proposal

As many of you know, the United States Congress earlier this year established the Joint Select Committee on the Solvency of Multiemployer Pension Plans ("Committee") to review the national multiemployer pension crisis and potential ways to address that crisis. The Committee is comprised of 16 members of Congress – eight Democratic members and eight Republican members. Various proposals remain under consideration by the Committee, including a loan program referred to as the Butch Lewis Act (Brown-Neal proposal). Among the considerations for the Butch Lewis Act and other proposals is the overall cost to the Federal Government.

Earlier this week, information became available indicating that the Congressional Budget Office recently revised its analysis of the anticipated cost of the Butch Lewis Act. The revised estimate came in at $34 billion over the 2019 – 2028 period. This is substantially lower than initial estimates, which were in the $100 billion range.

This is positive news and hopefully furthers the conversation around the feasibility of a loan program and a viable long-term solution to the multiemployer pension crisis. The Committee is required to make a report to Congress by the last week of November 2018. If there is an agreement by at least five Democrats and five Republicans to take action, the Committee will draft and submit legislative language as part of that report.

The Trustees have someone monitoring the events in Washington and reporting directly back to us with any developments. We will keep you informed when new information becomes available.
Changes to the Brown-Neal Proposal

SCORE:

CBO estimates that the net cost of the proposal (the bill as introduced plus principally the changes described below) would be $34 billion over the 2019-2028 period.

BILL OVERVIEW:

The Brown-Neal proposal would establish the Pension Rehabilitation Administration (PRA) within the Treasury Department, which would be authorized to issue bonds to finance loans to failing multiemployer pension plans. The loan funds would be placed into annuities or duration matching or similar portfolio to ensure the retiree benefits are protected. The PRA also would maintain oversight over plan funds during the life of the loan. If plan funding would become inadequate to pay proposed benefits, the plan must immediately take remedial actions.

Only pension plans that can remain solvent and repay the loan would be granted a loan. A plan that could not remain or become solvent with a loan alone, could apply to the PBGC for additional financial assistance in conjunction with a PRA loan. PBGC financial assistance would not exceed the value of PBGC guarantees for all plan participants and beneficiaries.

ADDITIONAL CHANGES:

The bill was introduced in the House and the Senate in November 2017. It secured bipartisan support in the House and has the support of a number of diverse stakeholders, including financial institutions, unions, and contributing employers. After receiving feedback, we made a number of amendments to the bill to ensure the lowest possible rate of loan default, a strong PRA loan repayment program for those that most need it, and to encourage smart plan administration for future plan success. These changes include:

1. **Eligibility:** In recognition that this program is principally for those plans that are in deep need of a cash infusion right now, we have amended the bill to limit it to critical and declining plans as of the date of enactment and any critical plan as of enactment below 40% funded with an active to inactive ratio below 40%. MPRA plans and some currently insolvent plans remain eligible for the program.

2. **PBGC Assistance Kept in Reserve:** The PBGC assistance amount (if needed) would be calculated at the time of the PRA loan application. The amount calculated is the present value of the total PBGC guarantee if the plan were to become insolvent at the time of the loan application. To ensure that no government funds are used unnecessarily, plans may only request the PBGC assistance portion of the proposal when cash flow needs require it (i.e., when they are within 5 years of insolvency). This has the added benefit of allowing plans to have a reserve of funds to draw from if they have unexpected financial difficulty in the near term when the funds will be most impactful.

3. **Incentive for Paying Sooner and Incrementally:** Plans are encouraged to pay back the loan sooner by offering a 0.5% reduction in interest on the PRA loans for those plans that choose
to begin repayment after 20 years rather than 30 years. If a plan chooses this option, they would repay the loan in 10 equal installments between year 20 and year 30. This will lower loan default rates and get repayment to the government sooner.

4. **Low Interest Rate Details:** Some stakeholders wanted more details on the interest rates for the loans. Our intent is for the interest rate on all loans to be issued at or only slightly above the 30 year Treasury Bond rate. To reflect this intent, we have made it clear that the interest rates set by the PRA would not generally exceed 0.2% above the rate at which 30 year Treasury bonds are trading at the time the loan commences. To the extent it exceeds the 30 year Treasury Bond rate, the interest rate would not exceed an amount equal to funds needed to operate the PRA.