Rael & Letson

SUMMARY OF THE MULTIEMPLOYER PENSION

RECAPITALIZATION AND REFORM PLAN

Exactly one year after the Republican proposal to the now defunct Joint Select Committee for Multiemployer Pension Plans, Senators Grassley (R-Iowa) and Alexander (R-Tennessee) have prepared a revised proposal entitled "Multiemployer Pension Recapitalization and Reform Plan" in an effort to stabilize the multiemployer pension system. Following is a high-level summary of key provisions from the proposed legislation.

Funding Reform and Disclosures

- ***Implementation of a 6% cap on the plan's discount rate.*** When calculating funding liabilities, plans would not be allowed to use a discount rate higher than 6%. For most plans, this change would result in materially higher funding liabilities, lower funded ratios and, for some plans, a zone status change to a less favorable zone. The 6% cap on the valuation discount rate would be phased in over 5 years.

- ***Expanded and redefined zone statuses.*** The proposed legislation splits the "Green" zone into "Unrestricted" and "Stable" zones. The other zones are "Endangered", "Critical", and "Declining". In general, the proposed changes would require plans to address potential funding issues earlier, while limiting plan amendments that could inhibit a plan's path toward financial recovery.

- ***Modified participant notices.*** Plans that are Unrestricted or Stable would provide a streamlined Annual Funding Notice to plan participants. Plans that are Endangered, Critical, or Declining would provide a new notice to participants called the Zone Status Notice. Both notices would include information about a plan's risks.

- ***Withdrawal liability modifications.*** Withdrawal liability would be simplified. An employer typically would pay a larger annual payment than what is required under current regulations. The duration of annual payments would be based on the plan's funded percentage and may be shorter or longer than what is currently required.

PBGC Premiums

- ***Annual premiums to the PBGC would increase significantly***
  - Flat-rate premiums would increase from $29 to $80 per participant.
  - New variable-rate premiums would be required for underfunded plans equal to 1% of the plan's unfunded Current Liability. The variable rate premium is subject to a cap of up to $250 per participant, depending on the average benefits paid from the plan.
  - New monthly stakeholder co-payments of $2.50 per active participant would be imposed on each union and employer.

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RECAPITALIZATION AND REFORM PLAN

(Continued)

- ***Annual premiums to the PBGC would increase significantly (continued)***

  - New monthly retiree co-payments equal to a fixed percentage of monthly benefit payments would be required. The fixed percentage would range from 0% to 10% depending on the plan's zone status.

  - PBGC premiums would increase plan costs by roughly $0.20 to $0.80 per hour, creating significant hardship for low wage industry plans.

Troubled Plans

- ***PBGC guaranteed benefit would be increased.*** The maximum guaranteed benefit would increase to 100% of the first $56 in monthly benefit accrual. This means for a worker with 30 years of service, the maximum guaranteed benefit increases from $12,870 to $20,160 per year.

- ***PBGC to provide ongoing assistance to plans heading for insolvency.*** Increased PBGC premiums and government funding would stabilize the PBGC finances and allow ongoing financial assistance to plans within 5 years of insolvency. PBGC would also have the authority to petition a Federal court to terminate a plan in critical or declining status to protect the interests of plan participants.

- ***Special elective partition program established by the PBGC.*** The partition program would relieve qualifying plans from a sufficient amount of liabilities to ensure the plans remain solvent indefinitely. PBGC would provide financial assistance to pay benefits associated with liabilities partitioned into a Successor Plan.

Alternative Plan Designs

- ***Composite Plan Design.*** The proposed legislation would establish a Composite Plan design for new groups and better funded legacy plans. Benefits earned under a composite formula are expected to remain fully funded, exempting this portion of the plan from withdrawal liability and PBGC premiums.

Rael & Letson Comments

The proposal as written addresses some of the shortcomings of the prior Joint Select Committee proposal by addressing new areas of concern, adding transition bridges to the higher funding requirements and promoting new plan designs. Despite these improvements, the transitions are likely still far too steep and the costs unmanageable for many plan entities. We expect that Congressional leadership will continue to work towards legislation that provides long-term security to the multiemployer pension system without causing significant financial hardship for these plans along the way.