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Hatch Statement at Finance Committee Hearing Examining Multiemployer Pension Plans

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a hearing examining the multiemployer pension plan system and its effect on unions, employers, workers, retirees and taxpayers:

I'd like to welcome everyone to this morning's hearing to examine the multiemployer pension plan system.

As I said at a recent hearing, financial security for workers and their families, and retirement policy in particular, have never been more important. While we've enjoyed a number of successes in this area, today we will be talking about an area of retirement policy that, for a number of reasons, has not delivered on the pension promises made to workers and retirees.

A multiemployer pension plan is a collectively bargained pension plan set up by a union and two or more unrelated unionized employers. In this system, the employers make contributions to the plan and pay premiums to the Pension Benefit Guaranty Corporation, or PBGC, to insure the plan. Multiemployer plans are operated by a joint board of union and employer trustees that, among other things, sets the amount of the pensions. Or, in other words, these boards make the promises.

Ten million Americans are covered by multiemployer pension plans, and, currently, more than one third of those people are in plans that are critically underfunded. Many are in danger of default.

In the case of a default, the PBGC would pay out pensions to retirees. Those payments are capped by law and would be no greater than $12,870 per year. In fact, in many cases it would be far less. That would be a steep drop for a retiree who was promised an annual pension of $30,000 or $40,000 in a plan like the Central States Teamsters Plan, one of the plans we'll be talking about today.

That sounds pretty bad, but the problems in the multiemployer pension system are even *worse than what I just described.*

There are several plans – like the Central States and United Mineworkers Plans, for example – that would bankrupt the PBGC if they were to default. The PBGC insurance program for multiemployer plans just can't handle that load. And if the PBGC's insurance assets are ever exhausted, pension payments will drop to nearly zero.

The response to this crisis by Congress and the President, in 2014, was to enact the Multiemployer Pension Reform Act, or MPRA.

At the request of multiemployer pension plan managers, employers who contribute to multiemployer pension plans, as well as many unions representing employees, the MPRA gave pension plan trustees the ability, in extreme cases, to petition the Treasury Department for approval to cut pensions in the near term in order to avoid insolvency and larger cuts down the road.

This law is, to say the least, controversial, and the committee will hear from both defenders and critics of the MPRA today.

This is a sobering moment for our country, the pension community, and retirees. And beyond the hardship for retirees in multiemployer plans, this moment also highlights the challenge of delivering on the promise of pensions in defined-benefit plans across the board, both public and private, and the stakes for retirees if these systems fail.

Today we will hear testimony from a Central States beneficiary, a retiree whose husband recently passed away and is scheduled to receive a 40% cut in her survivor's pension if Treasury approves the application of the plan's trustees to implement the reductions. Her annual pension would be reduced from more than $30,000 to just under $18,000.

Her case is the very definition of hardship in the context of the pension system.

We will hear testimony today about the United Mine Worker's Pension Plan, another financially strapped pension plan that, even without additional cuts, provides a relatively modest pension, around $6,000 per year on average, for its beneficiaries.

In addition, we have witnesses who will address the hard truth that, without the MPRA, future pension cuts will be even worse. We will hear that the MPRA allows many plans that otherwise would fail entirely to keep their benefits from dropping all the way to PBGC levels, or perhaps to no pension at all.

Now, we know there are some who advocate a taxpayer bailout of the PBGC's multiemployer pension program. In my view, that will be very difficult to achieve if recent history is any guide. The idea of a PBGC bailout was proposed by unions, employers, and multiemployer plans in 2010. Back then, the House, Senate and White House were all controlled *by Democrats, and the proposal got absolutely no traction. I have a hard time seeing how such a proposal could move forward in the current environment.*

But, for the sake of argument, let's imagine that there was another way, outside of premiums, to finance the PBGC. What then? The cuts would still be larger.

Older retirees and disabled retirees, who today cannot receive cuts at all under the MPRA, would be cut all the way down to the PBGC level. Even the retirees whose pensions are eligible for cuts under the MPRA are at least assured of always receiving at least 10 percent more than the PBGC level, and perhaps much more. But without the MPRA, even that minimal level of protection would vanish.

Ultimately, the critics of the MPRA have to recognize that, when dealing with this problem, there were really only three choices: bad, worse and worst of all. In 2014, a bipartisan majority in Congress and the President went with bad. No one is happy with that choice, I suspect, but it was the best option available to us at the time.

The question we have to consider now is: How can we avoid these problems in the future?

Today we will hear testimony about how the design and funding of multiemployer plans led us to this point. Not surprisingly, I suspect we'll hear that it is easier to promise pensions than to fund them. We will hear that because of lax rules in the current system, there is a great temptation for plan managers to make unrealistic actuarial assumptions and take on excessive investment risk. And we will learn about disturbing parallels between multiemployer pensions and the defined benefit pension plans run by many state and local governments.

Finally, I want to say another word about the Mine Worker pension plan. I promised Ranking Member Wyden that I would work with him on this issue and I have kept my promise. I have done my best to advance legislation introduced by Senators Capito and Manchin, which, given the already low pension payments, the Obama Administration's war on the coal industry, and the depressed state of the economy in most of coal country, is, in my view, the best option available to us. I plan to continue that effort.

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