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Pension Funding Challenges
Butch Lewis Act & Central States

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Pension Funding Challenges

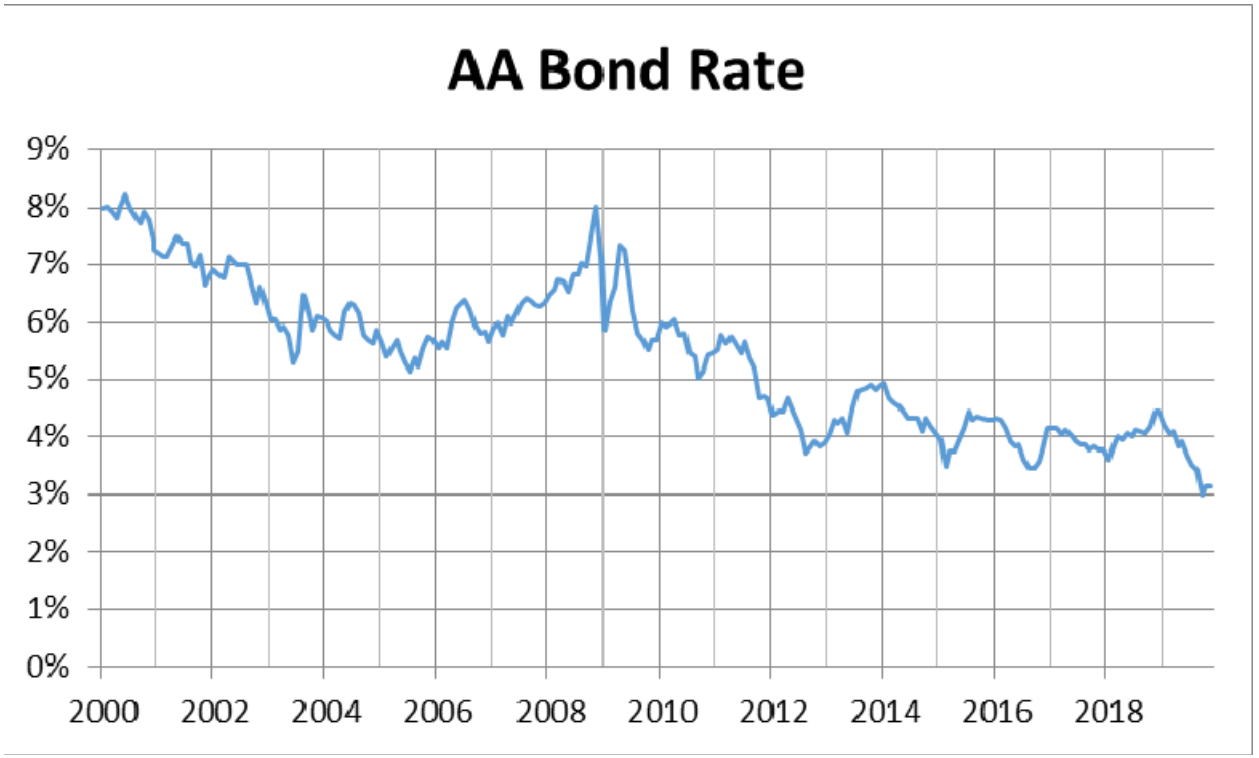
- Single employer plan challenges
- Multiemployer plan challenges

Single Employer: Funding Rules

- PPA mandated mortality and discount rates and reduced actuarial smoothing techniques
  - Post 2008 funding relief enacted to permit higher discount rates for funding
  - Funding relief will eventually wear off without legislative action
  - Interest rates have not returned to “normal”
  - Relief did not change how PBGC variable premiums are determined; some plans 100% funded on relief rates paying premium cap of $600 per participant

Single Employer: Discount Rate

AA Bond Rate January 2000 to October 2019. Hoped for return to normal has yet to happen, recent rates plumbed new lows.



Peter Hardcastle-Cheiron-Pension Funding Challenges
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Single Employer

- PPA added volatility to liability valuations
  - Less smoothing
  - Market based discount rates
- As funding relief wears off plans will face higher minimum contributions
  - Plan sponsor behavior to this threat
    - Freezing plans
    - Offering buy-outs to inactives
    - Short-term: increase investment in bonds to minimize funding level volatility
    - Long-term: pass plan to an insurer
- Concern that plan sponsors focused on current minimum contribution will be blindsided as funding relief wears off

Multiemployer Challenges

- 2008 produced a crisis for many plans
  - The larger the net negative cash flow the harder 2008 hit
  - Economic activity declined post 2008 reducing contribution bases
- PPA required trustees to fix funding issues over 10 years if possible
  - Benefit accrual reductions
  - Higher contributions
  - Benefit accrual seems low for contribution level
    - – Participants less happy with DB plan

Multiemployer Challenges

- Several large plans in Red zone cannot emerge and use "Reasonable Measures" to forestall insolvency
- MPRA 2014 introduces Critical and Declining status and permits reductions in accrued benefits / partition
  - Several troubled plans not permitted to reduce benefits under MPRA
  - Partition not funded so no use for large plans

Multiemployer Challenges

- Investment outlook is for lower returns
  - Plans are generally investing with more risk now than they were in 2007 to try to compensate
- Approximately 150 plans facing insolvency over next 30 years
  - Mineworkers plan year ending 6/30/2023

    (Source: 2017 5500 filing)
  - Central States plan year ending 12/31/2025

    (Source: 2018 5500 filing)

Butch Lewis Act

- Plan borrows from Treasury as much as it can afford, up to cost of securing inactives
- Uses borrowing to match inactive benefit payments
- Contributions and plan assets used to service loan in place of paying pensions
- If plan can not afford to borrow enough to cover inactive liabilities then PBGC takes on the excess
  - Act requires PBGC to be funded for the partitioning

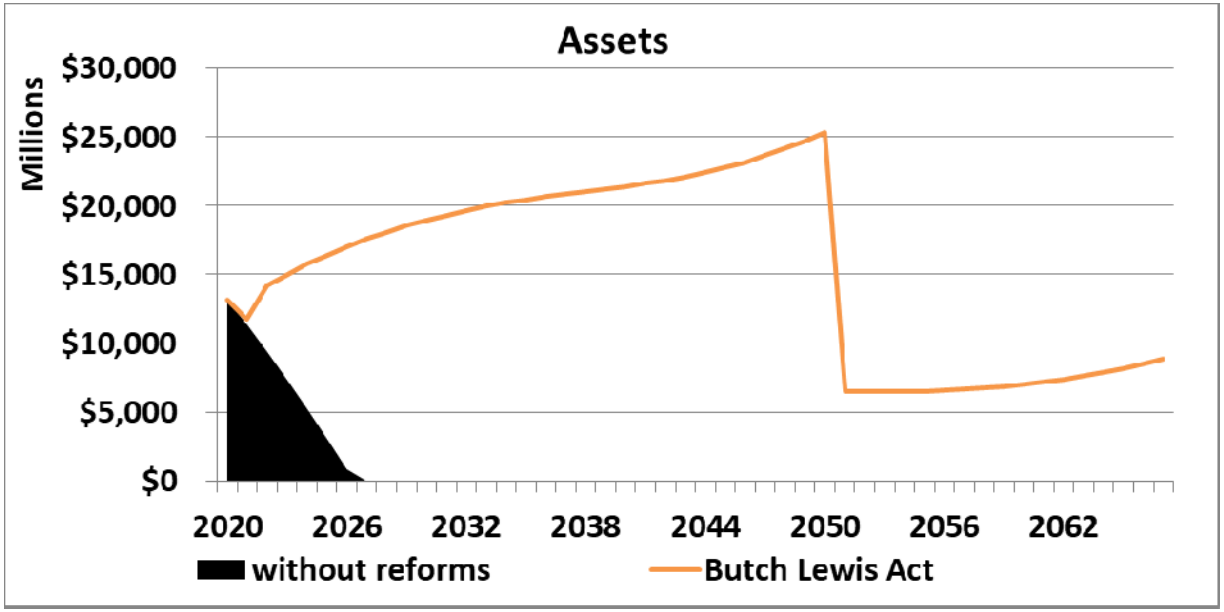
Butch Lewis Act / Central States

- Central States borrows $19.5 bn at 2.75% interest
- This can cover about 60% of the inactive benefits
  - PBGC picks up 40%
- Central States pays Treasury $536m a year for 30 years, then pays back the $19.5 bn borrowed

The figures here are illustrative based on todays interest rates and assume a borrowing takes place in 2020. Timing and market conditions will change the numbers.

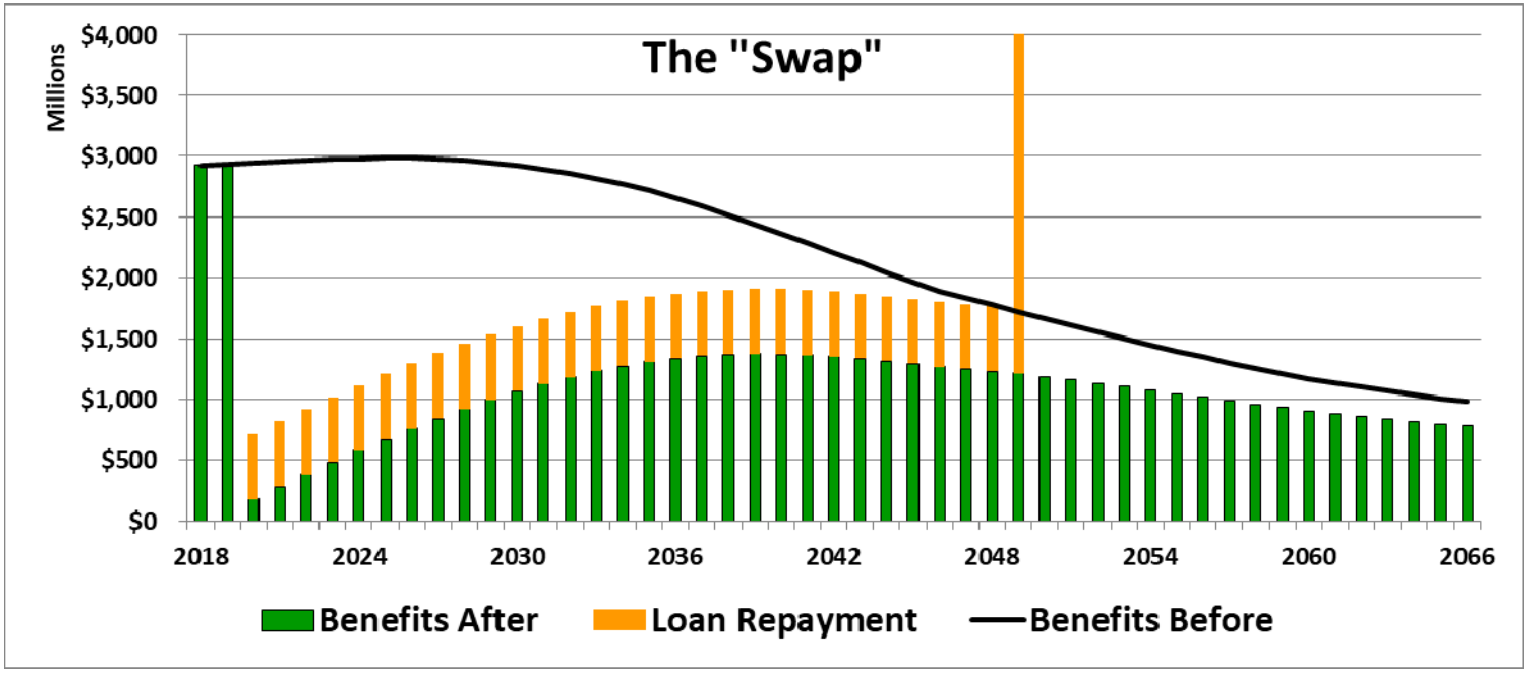
Central States / Butch Lewis Act

- Central States insolvency projection



Sources: 2018 5500 attachment for line 4c, DOL EFAST2 Website, Treasury MPRA application cash flows, adjusted for 2018 5500 data

Butch Lewis Act – The Liability Swap



Central States / Butch Lewis Act

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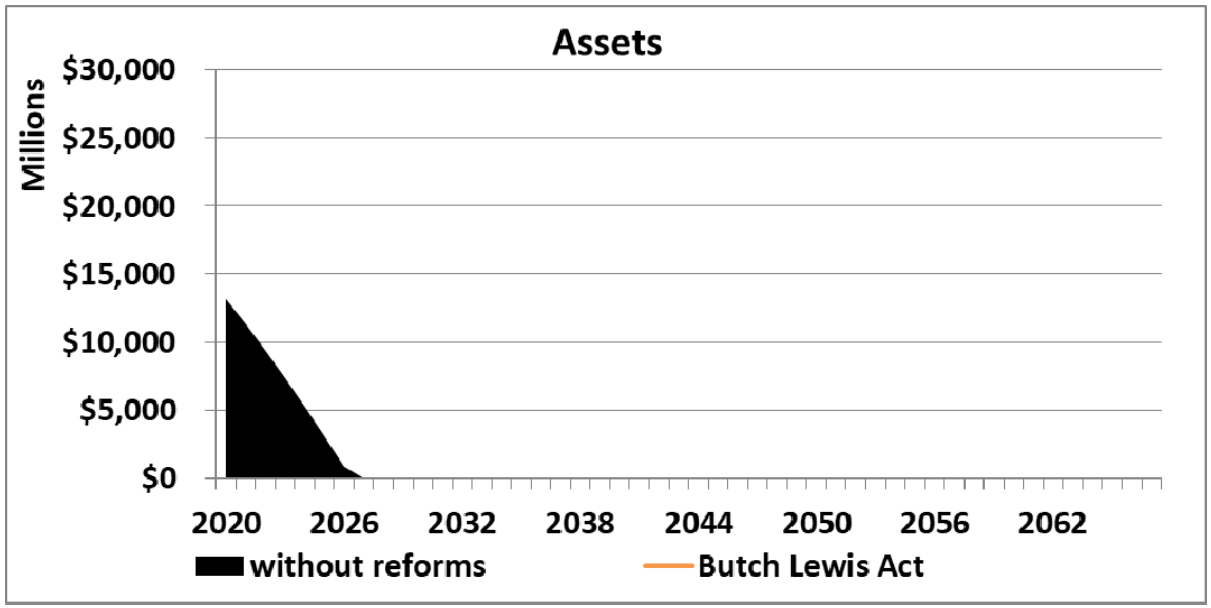

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