NATIONAL COORDINATING COMMITTEE FOR MULTIEMPLOYER PLANS

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Multiemployer Pensions and COVID-19 Impacts

Background on Multiemployer Pensions

Multiemployer pensions provide retirement income to 10.4 million hard-working Americans and are the product of agreements between some 200,000 job-creating employers of America and their labor partners.

The multiemployer system has been an incredible economic engine for the U.S. Government and the American economy. In 2015 alone, the multiemployer system and the job creating employers of America and labor that jointly sponsor these plans paid more than $158 billion in taxes to the U.S. Government and $82 billion to state and local governments[1]. They also provided $41 billion in pension income to our retirees and paid more than $203 billion in wages to 3.8 million active workers. Combined, the pension and wage income supported 13.6 million American jobs and generated $1 trillion in GDP.

Prior to the pandemic of the novel coronavirus ("COVID-19"), a small but systemically important subgroup of these pension plans were heading toward insolvency. These plan insolvencies will cause the federal government's Pension Benefit Guaranty Corporation ("PBGC") to become insolvent. Approximately 1.3 million Americans will lose between 94 percent and 98 percent of their pension income and be forced onto the federal government's poverty safety net programs. These insolvencies will also result in thousands of businesses being forced into bankruptcy or liquidation, which in turn will lead to tens of thousands of active workers losing their jobs.

The failure of these plans, their employers, and the PBGC will also cost the U.S. taxpayer at least $17 billion annually in lost tax revenue and increased safety net spending[2]. This follow-on impact to the U.S. taxpayer is consistent with then Senate Finance Committee Ranking Member Orrin Hatch's analysis of the impact of potential benefit reductions to state and local government pensions in his January 2012 report titled "State and Local Government Defined Benefit Pension Plans: The Pension Debt Crisis that Threatens America."[3]

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[1] See The National Coordinating Committee for Multiemployer Plans, *Multiemployer Pension Facts and the National Economic Impact*, January 5, 2018, http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts- and-the-National-Economic-Impact-Jan-5-2018.pdf.

[2] See The National Coordinating Committee for Multiemployer Plans, Testimony to the United States House of Representatives, Committee on Education and Labor, Subcommittee on Health, Employment, Labor, and Pensions, Hearing on *The Cost of Inaction: Why Congress Must Address the Multiemployer Crisis*, March 7, 2019, https://nccmp.org/wp-content/uploads/2019/03/Testimony-to-House-Ed-and-Labor-HELP-Subcommittee-March-7-2019.pdf, pages 10-12.

[3] United States Senate Committee on Finance, *State and Local Government Defined Benefit Pension Plans: The Pension Debt Crisis that Threatens America*, A Report by Ranking Member Orrin Hatch (R-

COVID-19 Impacts (Unemployment, Lost Contributions, Federal Reserve, Financial Markets, Employers)

The impacts directly from COVID-19 are very clear in some cases, and will take time to fully understand in other cases. COVID-19 and the government mandated shutdown of the U.S. economy has resulted in an unprecedented economic collapse that has decimated the finances of workers, families, employers, and their plans. This economic shutdown has put more than 46 million hard working Americans out of work in the thirteen weeks ending June 13th. In comparison, during the worst thirteen weeks of the 2008-2009 Great Recession, 8.4 million Americans lost their jobs.

Multiemployer pension plans generally receive contributions based on the hours worked, so as hard-working Americans are unemployed, the employers are no longer contributing to the pension plans. These lost employer contributions are devasting for all pension plans, but particularly those plans in financial distress because, under rehabilitation plans or funding improvement plans, almost all of the employer contributions are used to pay down the unfunded liabilities of the plan and to pay benefits to current retirees. The industry sectors that provide multiemployer pension plans have seen reductions in employment ranging from a low of 4.5 percent to a high of 95 percent. The failure to have an immediate solution for multiemployer pensions will accelerate the insolvencies of plans already in distress as well as the PBGC, the federal insurer of these plans. As previously mentioned, plan insolvencies will result in a large number of employer bankruptcies or liquidations. Further, previously healthy plans are likely to become financially distressed as a result of these COVID-19 impacts.

COVID-19 has also resulted in the Federal Reserve taking actions that directly and negatively impact pension plans as well as their investments in fixed income securities. While the Federal Reserve's actions are necessary to prevent a complete collapse of the financial markets and the broader economy, their actions have further crushed the yields on Treasury securities, agency securities, and corporate fixed income securities. Given the role that all of these fixed income securities play in a well-diversified portfolio (a statutory requirement under ERISA), the Federal Reserve's actions, however necessary, have directly and negatively impacted a large portion of the investment portfolio of pension plans.

Further, at his June 10th press conference, Federal Reserve Chairman Jay Powell indicated that the participants in the Federal Open Market Committee ("FOMC") expect that the economic recovery will begin in the second half of 2020 and last for a couple of years. He indicated that interest rates will remain at their current level near zero, and that there will not be a rate increase through at least 2022. To put the current interest rate environment into perspective, Treasury rates across the maturity spectrum are between 161 basis points (1.61%) and 230 basis points (2.30%) lower than

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Utah), https://www.cafsti.org/wp-content/uploads/briefingroom/Hatch-Report-The-Pension-Debt-Crisis-that-Threatens-America.pdf, see page 4.

the rates last reported by plans on the U.S. Department of Labor Form 5500. This is devasting to the earning potential of plan investments, and for the PBGC's valuation of pension liabilities.

The PBGC discounts multiemployer pension liabilities at the rate that it estimates that it could purchase annuities to defease these liabilities. Historically, the annuity rates used by the PBGC have been closely tied to long-term Treasury rates. The last PBGC valuation in 2016 reported that the unfunded liability for multiemployer pensions was $638.7 billion. Using today's manipulated Treasury rates, the unfunded liabilities would increase to $773.5 billion.

The Federal Reserve's rate crushing manipulation of the yield curve through its Large-Scale Asset Purchase ("LSAP") program began in 2008, as it began to purchase GSE MBS and U.S. Treasuries during the Great Recession. The LSAP was intended to, and did in fact, reduce Treasury rates across all maturities and has been well documented by the Federal Reserve staff through Staff Report No. 441 (March 2010) as well as in a April 23, 2009 memo to the FOMC in preparation for April 28-29, 2009 meeting.

As part of its COVID-19 response, between March 4th and June 10th, the Federal Reserve has increased its holdings of Treasury securities by an unprecedented $1.65 trillion and of GSE MBS by almost $464 billion (which represents 3.1 times the net issuance by the GSEs'). These purchases have significantly reduced Treasury rates across all maturities, and as noted above, the Fed is committed to these very low rates through at least 2022.

The financial markets represent a significant unknown for the foreseeable future. While portions of the equity markets have rebounded off their March lows, much of this rebound resulted from programs established by the Federal Reserve and support that Congress has provided the economy. The near and medium-term performance of the equity markets faces significant uncertainties that are largely weighted toward the downside.

It is also not clear how many of the 46 million unemployed will get their jobs back, or, for those who do, the wages that they will earn. It is also not clear how many Americans will become newly unemployed once employers no longer need to meet the loan forgiveness requirements of the Paycheck Protection Program or as the job protection restrictions for airlines end on September 30th. Further, it is not clear how many employers will file for bankruptcy or liquidation as a result of the unprecedented COVID-19 shutdown of the U.S. economy.

What is clear is that most of the employers in the multiemployer system are small businesses and that the COVID-19 pandemic will have a tremendous negative impact on their finances as well as their multiemployer pension plans. Estimates from the Federal Reserve and the Congressional

Budget Office ("CBO") predict reductions in 2020 GDP of 6.5 percent[4] and 9.3 percent[5] respectively. Reductions of this magnitude, particularly off prior estimates of positive growth, will result in substantial reductions in capital expenditures for both the private sector as well as state and local government. In fact, CBO estimates that private investment will be down $714 billion[6] in 2020 alone. Reductions of this magnitude will have a tremendous negative impact on the construction industry that comprises 60 percent of the multiemployer system. As the Federal Reserve has indicated, the economic recovery will begin in the second half of 2020 and take at least a couple of years. The employers in the multiemployer system are unlikely to be any different from the broader economy, meaning that it will take a significant amount time to get back to the pre-COVID-19 levels of employment and pension contributions.

All of this leads to the conclusion that multiemployer relief and reform are economic imperatives for participants, plans, the job creating employers of America, the PBGC, and the U.S. taxpayer.

[4] Board of Governors of the Federal Reserve System, *Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2020*, June 10, 2020. https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200610.pdf.

[5] Congressional Budget Office, *The Decline in CBO's Projections of Gross Domestic Product for 2020 and 2021*, Letter to Speaker Nancy Pelosi, June 9, 2020. https://www.cbo.gov/system/files/2020-06/56395-CBO-Pelosi-Letter.pdf.

[6] Ibid, 2.