STATEMENT OF
THE INTERNATIONAL ASSOCIATION OF MACHINISTS
AND AEROSPACE WORKERS
ON
'STRENGTHENING THE MULTIEMPLOYER PENSION SYSTEM:
HOW WILL PROPOSED REFORMS AFFECT EMPLOYERS, WORKERS, AND RETIREES?'

BEFORE THE
SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR, AND PENSIONS
OF
THE COMMITTEE ON EDUCATION AND THE WORKFORCE
UNITED STATES HOUSE OF REPRESENTATIVES

OCTOBER 29, 2013

The International Association of Machinists and Aerospace Workers (IAM), a broadly diversified manufacturing and transportation union representing nearly 700,000 active and retired members, believes strongly in the necessity of a defined benefit pension in order for workers to have a secure retirement. We are pleased to comment on the subject of today's important hearing, particularly on the affect the proposed changes to the multiemployer pension system will have on workers and retirees.

We in the IAM have experienced firsthand the benefits of a well-run multiemployer pension plan. The IAM's National Pension Fund has over 1,750 contributing employers and is the sixth largest multiemployer plan in the U.S. With assets of over $9.2 billion, the IAM National Pension Fund provides retirement security to over 80,000 retirees and beneficiaries.

Multiemployer pension funds possess a number of substantial benefits for both workers and employers. Risk is shared among many employers so the failure of one business cannot bring down the entire pension fund. Employer costs are predetermined and, unlike single employer plans, those costs are a predictable hourly rate.

Professionally managed multiemployer plans pool investment risk for workers and are more efficient than 401(k) savings plans in delivering a comparable level of benefits.

It is important to note that pensions are not gifts from employers, but rather deferred wages that employees have sacrificed for the promise of a secure retirement after a lifetime of work. For example, in the IAM National Pension Fund a worker deferring $3.00 per hour in wages would earn $120.44 per month per year of service. For a thirty-year career the $3.00 per hour contribution would provide a pension of $3,613 per month, or about $43,400 annually.

An essential part of the American Dream is a secure retirement after a lifetime of toil. For many Americans that dream has turned into a nightmare of uncertainty and fear as incomes have stagnated and the number of workers receiving defined benefit pensions has shrunk. Worse yet, the unwise proposal, Solutions Not Bailouts, by the National Coordinating Committee for Multiemployer Plans (NCCMP) to allow "deeply troubled plans" to drastically cut the pensions to current retirees would break the promise of a secure retirement that so many workers have sacrificed hard-earned wages and benefits for.

As a participating member of the NCCMP, the IAM applauds NCCMP's attempts to find ways to strengthen the multiemployer system, but we unequivocally reject any proposal that allows multiemployer plans to have the ability to slash retirement benefits for existing retirees. NCCMP's scheme allows cuts to 110 percent of the Pension Benefit Guarantee Corporation's (PBGC) maximum guarantee of $35.75 per month per year of service. At 110 percent of the maximum guarantee, someone with a thirty year career could see his or her pension reduced to only $1,180 per month, or $14,157 per year. For a worker planning on receiving a monthly benefit of $3,613, this would mean a 67 percent cut in promised benefits. A bigger pension would result in an even larger cut (see attachment). We have no idea how an eighty-year-old retiree would be able to make up such a loss.

While no data has been provided as to how the proposal to allow cuts down to the 110 percent level was determined, we do know that such an extreme cut is unconscionable and breaks a central tenet of the Employee Retirement Income Security Act (ERISA). ERISA's "anti-cutback rule" permits reductions in future benefit accruals by current employees, but prevents reductions in vested benefits including pensions being paid to retirees and their surviving spouses. This rule is derived from a fundamental understanding that, since the overwhelming majority of retirees do not have the means to increase their income, changing ERISA to allow cuts in promised benefits is a ticket to poverty and dependence on government assistance. Likewise, workers within a decade of retirement do not have the ability or the time to make significant changes in their careers or savings to ensure a secure retirement.

NCCMP's proposal to "harmonize" the ERISA's current normal retirement age of 65 with Social Security, which increases to age 67 for those born in 1960 or later, will also have a negative effect on future retirees. Many of our members in the IAM work in physically demanding and often dangerous jobs and their bodies are simply worn out by age 65. Furthermore, as we have seen during this so-called recovery, it is very hard for older workers to find new employment. Raising the normal retirement age would only create additional hardships for older unemployed workers since it would delay and/or reduce their retirement benefits.

Perhaps the central flaw in NCCMP's proposals derives from its lack of regard for the wellbeing of current and future retirees, both of whom appear to be sacrificed in order to help some "deeply troubled plans," particularly the badly underfunded International Brotherhood of Teamster's Central States Pension Fund. The Central States Pension Fund is described in the Solutions Not Bailouts report as a "transportation, communications, and utilities" fund with a net liability of $20 billion as of September 30, 2012. According to the report, the other pension fund with a significant liability, $6 billion, would not be helped by the proposal to slash retiree benefits.

Disturbingly, as a red zone plan, the Central States Pension Fund appears to have not yet availed itself of all the tools afforded it under the Pension Protection Act. According to the April 29, 2013 Quarterly Report of the Independent Special Counsel, the Central State Trustees "...concluded that mandating further benefit reductions [for future retirees] or contribution rate increases at this time would be counterproductive to the Fund, and would not constitute 'reasonable measures' to be adopted or pursued." Yet, the Central States Pension Fund's yawning deficit and its potential impact on the Pension Benefit Guaranty Corporation's (PBGC) guaranty fund constitutes a major justification for NCCMP's "solution" of cutting retiree pensions. If a potentially insolvent fund finds that reducing the benefits of future retirees and increasing contribution rates are "counterproductive," then why would any "deeply troubled plan" want to cut benefits to those who can least afford such cuts as NCCMP proposes?

Retirees lack the same clout as active employees, in both their former workplaces and in their unions. This presents a potential conflict of interest for plan trustees, who in NCCMP's proposal would not have to take into consideration the impact of the cuts on retirees when doing "due diligence" prior to making any such cuts. While the PBGC could review and negate any proposed cuts, the PBGC has a vested interest in reducing its potential financial liabilities so it would have an incentive to approve benefit reductions. Nor is the PBGC required to consider retirees when reviewing proposed cuts. According to the NCCMP proposal, if the PBGC does not respond to the trustees' request to cut pensions within six months then the cuts are automatically approved. This hardly constitutes a rigorous review and approval process.

Americans are rightly concerned about their financial futures. The Retirement Research Center estimates that working Americans face a retirement income deficit of $6.6 trillion dollars. Small wonder then that a poll by the Pension Rights Center found that the biggest financial concern for Americans is a lack of retirement security, and that a majority of Baby Boomers fear outliving their retirement savings even more than death.

Last week Wells Fargo released its annual Middle Class Retirement study which vividly detailed the retirement anxiety that many Americans face. Over 40 percent of survey participants indicated that both paying bills and saving for retirement was impossible, and barely half felt that they would be able to save enough to actually retire. A stunning 37 percent of survey participants stated that they would have to work until they were too ill or died.

Allowing draconian cuts in retirement benefits will not ease these concerns nor provide for a more secure retirement. Alternatives must be explored that preserve the fundamental promise of ERISA that your pension will be there when you need it and that your pension cannot be taken away from you. Examples of these alternatives include facilitating the merger of poorly funded plans with healthy plans and increasing plan premiums to the PBGC.

A more significant remedy would include Congress appropriating sufficient funds to the PBGC to cover any additional liabilities that premium increases and other alternatives may not cover. After all, taxpayers bailed out the Wall Street speculators who were primarily responsible for the 2008 economic collapse and our on-going economic crisis; a collapse that has devastated the retirements of countless Americans and put many pension plans under undue stress. If we can help the rich and politically powerful on Wall Street, then certainly we can lend a hand to the over forty-four million Americans on Main Street who are depending on their pensions for a secure retirement.

Whether it is in Detroit, a state capitol, or in a private sector multiemployer pension plan, the pensions of hard-working Americans are under attack. It is time to end this open season on workers' pensions. Congress must not be swayed by the easy temptation to cut hard earned benefits. Retirees and working Americans deserve better.

## PBGC Multi-Employer Plan Guarantee

| Monthly Benefit Per Year of Service | | % Guaranteed | $ Guaranteed |
|---|---|---|---|
| 1st | $11.00 | 100% | $11.00 |
| Next | $33.00 | 75% | $24.75 |
| Above | $44.00 | 0% | $0.00 |
| Maximum Guarantee | | | $35.75 |
| Maximum Annual | | | $429.00 |
| Example - Maximum with 30 Years | | | |
| Per Month | | | $1,072.50 |
| Per Year | | | $12,870.00 |

## NCCMP Proposal

Cuts as low as 110% PBGC Guarantee

| PBGC Maximum Guarantee | | 110% of Max |
|---|---|---|
| Per Mo Per Yr. | $35.75 | $39.33 |
| Annual Per Yr. | $429.00 | $471.90 |
| Monthly with 30 Yrs. | $1,072.50 | $1,179.75 |
| Annual with 30 Yrs. | $12,870.00 | $14,157.00 |

## Impact of NCCMP Proposal

| Current $ Per Mo. Per Yr. Service | NCCMP Proposed at 110% | Potential Reduction $ Per Mo. Per Yr. Service | % Reduction |
|---|---|---|---|
| $50.00 | $39.33 | -$10.68 | -21% |
| $60.00 | $39.33 | -$20.68 | -34% |
| $70.00 | $39.33 | -$30.68 | -44% |
| $80.00 | $39.33 | -$40.68 | -51% |
| $90.00 | $39.33 | -$50.68 | -56% |
| $100.00 | $39.33 | -$60.68 | -61% |

Example with 30 Years

| Current $ Per Mo. Per Yr. Service | Annual with 30 Yrs. Service | NCCMP Proposal 110% for 30 Yrs. | Potential Reduction $ Annually with 30 Yrs. | % Reduction |
|---|---|---|---|---|
| $50.00 | $18,000 | $14,157 | -$3,843 | -21% |
| $60.00 | $21,600 | $14,157 | -$7,443 | -34% |
| $70.00 | $25,200 | $14,157 | -$11,043 | -44% |
| $80.00 | $28,800 | $14,157 | -$14,643 | -51% |
| $90.00 | $32,400 | $14,157 | -$18,243 | -56% |
| $100.00 | $36,000 | $14,157 | -$21,843 | -61% |