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Multiemployer Plans

Iron Workers Plan Gets Bad News As Treasury Rejects Benefit Suspension

An Iron Workers defined benefit pension plan has become the third multiemployer plan to have its petition to cut benefits rejected by the Treasury Department.

The department, in a letter dated Nov. 3, notified the board of trustees of the Baltimore-based Iron Workers Local Union 16 Pension Fund that its request to cut the benefits of its participants to stave off the fund's insolvency had been rejected.

Multiemployer plans are generally collectively bargained and involve more than one employer.

In May, Treasury blocked a rescue petition submitted by the mammoth Central States, Southeast and Southwest Areas Pension Fund. Such rescue petitions are permitted under the Multiemployer Pension Reform Act of 2014, also known as the Kline-Miller Act.

A petition by the Road Carriers Local 707 Pension Fund was denied in June. To date, Treasury hasn't approved a single rescue petition.

''We commend the Treasury Department's well-reasoned denial of the Iron Workers Local 16 application to cut retiree pensions,'' Joellen Leavelle, of the Washington-based Pension Rights Center, told Bloomberg BNA in a Nov. 4 e-mail.

The suspension denial helps ensure that ''retirees receive the pensions they earned throughout their careers,'' said Leavelle, who is the communications outreach director for the consumer organization.

Joshua Shapiro, senior actuarial adviser at Groom Law Group Chartered in Washington, told Bloomberg BNA in a Nov. 4 e-mail that ''Treasury has once again rejected a suspension application because they concluded it did not cut participant benefits deeply enough. The same thing was true for Central States.''

Shapiro previously served with the National Coordinating Committee for Multiemployer Plans, which pushed for the MPRA and its benefits suspension provision.

Assumptions Found Unreasonable. In its latest benefit suspension denial, Treasury Special Master Kenneth Feinberg told the Iron Workers Local plan's board of trustees that its petition wasn't ''reasonably estimated to allow the Plan to avoid insolvency.''

Treasury, in consultation with the Labor Department and the Pension Benefit Guaranty Corporation, concluded that two of the plan's assumptions used for the application's actuarial projections weren't reasonable, Feinberg said.

The PBGC back-stops defined benefit plans that can't pay their obligations.

The two unreasonable assumptions were ''the mortality and mortality improvement assumptions and the assumptions about hours of service,'' Feinberg said.

Mixed Reaction to Denial. Shapiro said he was ''concerned that Treasury has again rejected an application because they did not agree with the judgment of the actuary and of the trustees.''

He explained that ''among actuaries and trustees, there is a wide range of expectation of the future, which suggests that the range of reasonable assumptions is also wide. Because of the high level of uncertainty that exists regarding future employment levels, asset returns and mortality patterns, parties can hold very different expectations without either necessarily being unreasonable.''

While pleased with the ruling, Leavelle said the denial doesn't ''solve the larger problem of severe underfunding in certain multiemployer pension plans.''

The denial shouldn't prompt Congress to ''consider proposals that would further undermine the retirement security of participants who have earned benefits in multiemployer plans,'' she said.

Leavelle's warning was a direct reference to the PRC's opposition to draft legislative language that would give certain multiemployer plans an option to establish composite-defined contribution-type plans. Such plans would relieve plan sponsors of investment and interest rate risk and would be outside the PBGC's pension insurance protection.

It's widely believed that there will be a move to pass such legislation in the upcoming post-election lame-duck session.

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The Treasury's denial letter is at https://www.treasury.gov/services/Responses2/Ironworkers-Local%2016-Pension-Fund-Notification-Letter.pdf.