Statement of the U.S. Chamber of Commerce

On: **The Cost of Inaction: Why Congress Must Address the Multiemployer Pension Crisis**

To: **United States House of Representatives, Education and Labor Committee, Health, Employment, Labor and Pensions Subcommittee**

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Date: **March 7, 2018**

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business

Glenn Spencer on behalf of the U.S. Chamber of Commerce

Before the U.S. House of Representatives Education and Labor Committee, Health, Employment, Labor and Pensions Subcommittee

Testimony for the Hearing On: The Cost of Inaction: Why Congress Must Address the Multiemployer Pension Crisis

Thursday, March 7, 2019

Background

Thank you Madam Chair Wilson and Ranking Member Walberg for holding this hearing on the financial troubles facing the multiemployer pension system. For many plans and plan participants, this situation has indeed become a crisis. But it's also a crisis for the employers who fund these plans, and the broader economy as well.

Although many multiemployer plans were fully funded through the 1990s, this situation came to an end in 2000 when the price of technology stocks dropped. Many investors suffered, but multiemployer plans were hit twice as hard because of demographic issues facing these plans, particularly the decline in the ratio of active workers to retirees. The 2008 recession led to further declines in funding levels and only exacerbated the demographic challenges.

For example, many multiemployer plans have ratios of one active worker for every two, three, or even five retirees. This condition is simply not the basis for a sustainable plan. In fact, certain plans will soon enter, if they are not already in, what one could call a "death spiral," where there is no realistic chance of recovery regardless of investment options or interest rate assumptions.

This has major implications for employers who are part of the multiemployer system.

Significant Employer Concerns

Among the biggest problems is withdrawal liability. While withdrawal liability is not booked until a plan actually terminates, the exposure to withdrawal liability is starting to impact employers now. When banks or other creditors know that an employer is part of a struggling multiemployer plan, they begin to question the creditworthiness of a business, which can lead to less than optimal lending rates or a denial of credit.

Furthermore, employers may lose the opportunity to expand business operations through mergers, because companies that are not part of the multiemployer system may not wish to expose themselves to withdrawal liability. And finally, small family businesses may decide not to pass the business down to heirs to avoid passing along withdrawal liability. Worse, some may find that selling their business to fund their own retirement has become impossible because withdrawal liability is higher than the value of the business.

The second challenge is high contribution rates. As unfunded liabilities have increased, employers have faced rates that have doubled or tripled. Some employers are paying as much as $15.00 or more per hour to plans for every hour an employee works.

While most employers would rather absorb the higher contribution rates than incur withdrawal liability that could bankrupt them, the ultimate effect is that employers become less competitive. It is questionable whether employers can sustain ever increasing rates over the long term.

A third significant problem is the potential contagion effect. Many employers contribute to more than one multiemployer plan. Should an employer with exposure to many plans face withdrawal liability from any one of those plans, it could go bankrupt. At that point, all the other plans in which it participates will face increased financial pressure, possibly causing them to become insolvent and triggering withdrawal liability for other employers in those plans, leading to a cascade of bankruptcies and failing plans. While no extremely large plan has yet gone insolvent, several are projected to do so within the next five to ten years.

Principles for Reform

The Chamber recognizes that there are no easy answers. Last year, the Chamber jointly issued principles to help guide Congress towards a solution.

- Congress must recognize that rescue legislation is urgently needed. The problem will only get worse if we wait to address it.

- Struggling plans will need financial assistance. Our recommendation is for long-term, low-interest loans that will protect taxpayers from financial liability.

- All parties will have to be part of the solution, including plan beneficiaries and participating employers.

- While the PBGC may ultimately need more money in the form of increased premiums, these increases must be evaluated after tools to restore the solvency of these plans are put in place.

- Composite plans must be authorized so that healthy multiemployer plans can stay that way.

We realize these principles are just a start and we look forward to working with Congress to find a bipartisan solution. I am submitting for the record a report the Chamber issued last year on the multiemployer crisis, which discusses employer concerns in greater detail.