November 15, 2017

ALL LOCAL UNIONS WITH PARTICIPANTS IN THE CENTRAL STATES, SOUTHEAST AND SOUTHWEST AREAS PENSION FUND:

On Thursday, November 16, Senator Sherrod Brown is scheduled to introduce legislation to address the Pension Fund’s financial status. Central States was asked to model the effects of this legislation. Our actuary has concluded that the legislation, if enacted, would in fact prevent the Fund’s insolvency.

This legislation contains no pension reductions to actives or retirees and would prevent the Fund’s insolvency through a combination of loans and PBGC assistance. The loan amount would be from $11 to $15 billion and the PBGC assistance would total $20 to $25 billion. The loan would need to be repaid at the end of 30 years, with interest payments made annually. The PBGC assistance would not be repaid.

We have previously modeled several IBT proposals which did not solve the Fund’s financial difficulties. The direct financial assistance provided by the PBGC, with an appropriation from Treasury, enables Senator Brown’s legislation to prevent the Fund’s insolvency.

Attached is a statement from the Fund regarding the proposed legislation.

Sincerely,

Thomas C. Nyhan
Executive Director

TCN:lam
Enclosure
Holding Statement: Inquiries Regarding the "Butch Lewis" Act

Central States Pension Fund's actuary has reviewed legislation proposed by Senator Brown and Congressman Neal, intended to assist multiemployer pension funds that are in "critical and declining" status.

The proposed legislation would create a new federal agency, the Pension Rehabilitation Administration (PRA), that would be authorized to issue loans sufficient to permit these troubled plans to meet their pension obligations for an extended period. These loans would be repaid with interest-only payments for 29 years, with a final payment of principal and interest in the 30th year.

However, if a pension fund is projected to be unable to pay all benefits due during the loan term and make all required loan repayments, it would, under a provision of this proposed legislation, be able to apply to the Pension Benefit Guaranty Corporation (PBGC) to receive additional financial assistance.

According to our actuary’s analysis, the federal loan program, on its own, would not be sufficient for the Fund to remain solvent indefinitely, and it would not be sufficient to enable the Fund to repay the loan at the end of the 30-year term. The Fund would therefore require assistance from the PBGC of $20 to $25 billion, as provided for in the proposed legislation, in addition to a PRA loan of $11 to $15 billion.

If Congress passes this proposed legislation, and Central States begins to receive both the loan and financial assistance by July 1, 2018, then our actuary has projected that the Fund would not become insolvent, based on reasonable assumptions at this point in time. The Fund would then be projected to be able to repay the $11 to 15 billion federal loan, and to continue paying benefits to all participants and beneficiaries. However, under the proposed legislation, the Fund would not be expected to repay the PBGC assistance of $20 to $25 billion.

If no legislation is passed that provides adequate financial assistance to Central States, then the Fund is projected to become insolvent within eight years. Our more than 400,000 participants and beneficiaries would, at that time, lose virtually all of the benefits they've earned through their hard work.