To Whom It May Concern - Please accept my thoughts below as my response to the comment period regarding ARPA legislation. Thank you.

Russ Kamp

New post on Ryan ALM Blog

ARPA – “The Almost Rescue Plan”
by russkamp

The Pension Benefit Guaranty Corporation (PBGC) released their long-awaited American Rescue Plan Act (ARPA) guidelines. They had 120 days from the time that the legislation was signed by President Biden to inform the public on how this legislation would be implemented. I’d give them a C-, at best!

Importantly, retirees who had seen their benefits slashed under MPRA will FINALLY be made whole (18 multiemployer plans). I still shake my head at the fact that our “leaders” had passed legislation in 2014 that permitted promised (earned) benefits to be taken away from retirees, and in many cases after they had already retired through no fault of their own. Thankfully, help is now arriving for these retirees, but it could be a ways off based on the PBGC’s priority filing schedule. According to PBGC’s release, participants in these plans can have their benefits restored prior to their priority group (Group 2) being able to submit an application, but they must file with the US Treasury Department to accomplish this objective. Make up payments for those that had received cuts can only be made after their pension fund submits and application and receives Special Financial Assistance (SFA). This could take some time.

Where I take great umbrage is in the PBGC’s interpretation of how the SFA should be calculated. Instead of taking a present value calculation of what it would take to secure the next 30-years of promised benefits (until 2051), the PBGC has decided that plans should include current assets, future contributions, and the earnings from both before determining the “gap” that exists in order to meet the 30-years of benefit payments. What this does is effectively doom those plans that are receiving the SFA to insolvency in 2051, as NOTHING will be left to meet benefit payments in 2052 and beyond. Again, great that current retirees are going to be made whole, but it does nothing to secure the benefits of those younger workers that will be just starting a career and contributing to their union’s plan with the hope that they too will have a retirement benefit waiting for them when they finally retire. Can you imagine making a mortgage payment only to have someone else live in your house?

It gets worse. The discount rate used in the legislation does not reflect reality. The legislation calls for the PPA’s 3rd segment rate plus 200 bps (5.5% currently) instead of PPA’s 1st, 2nd, and 3rd rates weighted to the projected benefit payments that will be made during the next 30 years. This higher discount rate will significantly reduce the SFA so that the SFA will likely fall about 40% short of what is truly needed to ensure that the promised benefits are there until 2051.

According to the PBGC they were not able to address this discount rate because it was specifically stated in the legislation. Where are the pension experts in the room when you
need them? Furthermore, the PBGC has reiterated that the SFA assets received should be segregated from current assets. The SFA assets must be invested in investment grade (IG) bonds with the exception of a maximum 5% that could be held in High Yield instruments that may have started out as IG but suffered downgrades since being purchased. The yield differential between the discount rate and the potential return on the SFA assets is what creates that additional roughly 40% shortfall. Again, good luck!

It appears to me that the legislation was passed with a targeted dollar amount as a goal, but that fact wasn't disclosed. The legislation scored by OMB had an $86 billion price tag. According to PBGC's Friday release, the "price tag" is estimated at $94 billion today. If the discount rate and SFA calculations had been adjusted as I suggest, the price tag would have been far greater. Instead of doing the right thing to secure the benefits for retirees without destroying these plans in the future, they chose to be penny wise and pound foolish.

The social safety net is going to be a lot more expensive when current employees see their pension plans collapse in less than 30-years. What appeared to be landmark legislation when it was first signed in March is now just another "Almost Rescue Plan Act". When will we finally do right by the American worker?