# Impact of the Pension Protection Act of 2006 on Multiemployer Plan Funding

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# Technical Changes and General Observations

## General Changes

- **Funding Standard Account remains intact**
  - Amortization bases for changes in plan benefits reduced from 30 to 15 years (or shorter, depending on payout period)
  - Amortization for changes in assumptions or methods reduced from 30 to 15 years
  - Automatic extension (for up to five years) of amortization period for charge bases (additional five years available upon application provided certain conditions are met)
- **Actuarial assumptions**
  - Must be reasonable both in the aggregate and individually
- **Annual actuarial certification required to determine "Zone" status**
  - Critical (aka Red Zone)
  - Endangered/Seriously Endangered (aka Yellow Zone)
  - Neither of these (aka Green Zone) – no certification required
- **Higher tax-deductible limit**
- **Increased disclosure**
  - Expanded detail in annual funding notice to participants and employers
  - Explanatory notices, data and updates for plans in endangered or critical status
  - More information to employers and participants, on request
  - Employee benefit statements more accessible
  - More detail on withdrawal liability estimates
  - Expanded 5500 information

# Technical Changes and General Observations – continued

- **Observations**
  - **Long-term perspective required**
    - Structure imposed to identify and address funding problems early
    - Move away from sole focus on immediate funding deficiency
    - Financial improvement plans span 10+ years
  - **Trustees' role expanded and changed**
    - Rules of stewardship apply
    - Responsibility to develop and adopt formal financial improvement plans
    - More accountability
    - More authority
  - **Additional flexibility and discipline**
    - In some situations "adjustable benefits" may be reduced
    - Restructure benefits to obtain long-term balance with contributions
    - Reject agreements not consistent with plan's financial health
    - Shortened amortization periods
    - Excise taxes for non compliance

# Red Zone Plans

- **Zone determination**
  - **Critical Status**
    - Tests
      - Funding deficiency in four or five years OR
      - A cash-flow crisis in five to seven years
    - Notice to participants, unions, employers and government
    - Trustees must develop, adopt and present a "Rehabilitation Plan" to the bargaining parties

- **"Rehabilitation Plan"**
  - **Up to $1,100 / day penalty on Board of Trustees for failure to timely adopt**
  - **Collective bargaining process remains intact**
  - **Benefit and contribution schedules provided to bargaining parties**
  - **Trustees can not accept collective bargaining agreements inconsistent with Rehabilitation Plan objectives and benchmarks**

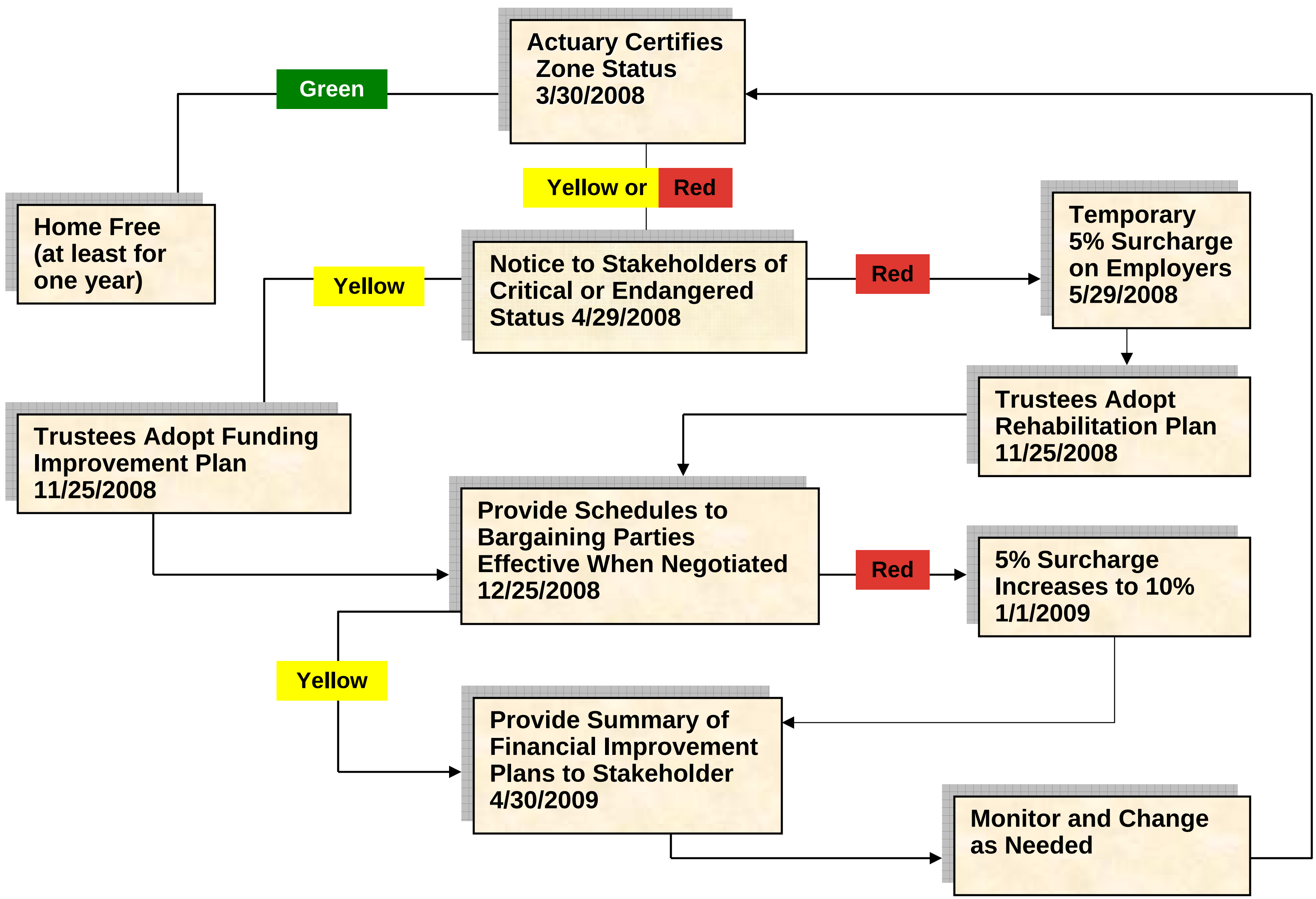
# Red Zone Plans – continued

- **New Tools**
  - **Reduction/elimination of "adjustable benefits" (e.g., early retirement subsidies and certain other protected benefits)**
  - **Temporary contribution surcharges on employers**
  - **Shelter from excise tax on funding deficiencies if in compliance with Rehabilitation Plan**
  - **5-Year amortization extension on charge bases**

# Yellow Zone Plans

- **Zone determination**
  - **Endangered Status**
  - **Tests**
    - Less than 80% funded and/or funding deficiency within seven years
    - If both, then seriously endangered
    - Notices as in Red Zone
    - Trustees must develop, adopt and present a “Funding Improvement Plan” to the bargaining parties
- **“Funding Improvement Plan”**
  - **Benefits and contribution schedules provided to bargaining parties**
  - **Reduce underfunding by 1/3 over 10 years (or 1/5 over 15 years)**
  - **Can not have a funding deficiency**
  - **Penalty for failure to timely adopt**
  - **Trustees can not accept collective bargaining agreements inconsistent with Funding Improvement Plan objectives and benchmarks**
- **Fewer “New Tools”**
  - **5-Year amortization extension on charge bases**

# PPA and Timeline for a Calendar Year Plan



# Various Perspectives on PPA

- Trustees
  - Forces to look at long-term funding issues they have been slow to address in some cases
  - More responsibility/risk
  - Greater need to become educated in actuarial details
  - Concerned about equity with respect to collective bargaining agreement effective dates for plan changes
  - Potential for multiple benefit schedules
- Employer perspective
  - Greater risk for additional contributions
  - More tools to look at funding over the long term
  - Ability to stay competitive with non-union businesses
  - Heightened sensitivity to total payroll costs and impact of benefit design
  - Very concerned about surcharges
- Unions and Participants
  - Greater risk of lower benefits, especially in Red Zone
  - New hires to subsidize current participants
  - "Continuous" cycle of benefit reductions
  - Create dissatisfaction with compensation package