

## FAQs

**QUICK SUMMARY:** This legislation aims at financially supporting troubled multiemployer pension plans so they don't fail. The bill would create the Pension Rehabilitation Administration as an agency within the U.S. Treasury Department. The PRA would sell Treasury- issued bonds in the open market to large investors such as financial firms. The PRA would then lend the money from the sale of the bonds to the financially troubled pension plans. For plans that need additional assistance, PBGC would provide financial assistance to make up the difference.

### **1. How does borrowing enable plans to ensure retirees get their full benefit?**

The pension plans borrowing from the Pension Rehabilitation Administration (PRA) must set aside the money in separate investments that match the pension payments for retirees. The pension plans can do this by buying annuities, cash matching with investment grade bonds, or duration matching with a suitable bond portfolio. Whichever approach is taken retirees and their families are guaranteed their promised benefits and the loan proceeds may never be invested in risky investments.

### **2. How much is borrowed and on what terms?**

Pension plans may borrow as much money as they need to pay current retiree and beneficiary pensions for life at low interest rates comparable to that on a long term Treasury bonds as long as they can show they can remain solvent during the loan period and that they can reasonably pay it back (see question 5 for what happens if they can't show this). The interest rate the PRA will charge pension funds may be slightly higher than the interest rate the Treasury will pay to investors, so it can cover its costs of operating the new agency.

During the first 29 years of the 30-year loans, the pension plans will pay only fixed interest rates on the money they've borrowed. In the last year, the pension plans will pay interest on the loans and repay all money they borrowed.

### **3. Is there oversight?**

Pension plans applying for loans to the PRA must submit detailed financial projections. The PRA will have to approve all the loans before they can be issued. Pension plans that have borrowed money must submit reports every three years to the PRA to show that the loans are working and take steps if their financial condition begins to deteriorate.

### **4. Who can apply for the program?**

The following types of plans may apply for PRA loans: Critical and Declining plans (within the meaning of section 305(b)(6)), recently insolvent but non-terminated plans, and plans that have suspended benefits under MPRA.

## **5. Will this work for all troubled plans?**

The bill is meant to provide assistance to all plans covered by the program but the loans alone will not be sufficient to help all the financially troubled pension plans. Some plans will need additional help from the government. The bill proposes that the Pension Benefit Guaranty Corporation (PBGC) would provide that help and that would require Congress to provide funding to the PBGC. The PBGC would support part of the pension plans' payments for retired and terminated vested workers, up to its statutory guaranteed cap on benefits for deeply troubled plans.

## **6. When would a plan get PBGC assistance?**

When a plan is preparing their application for a PRA loan and has determined that it cannot maintain solvency with the loan alone, the plan would also apply to the PBGC for PBGC assistance. Plans cannot apply for PBGC assistance if they cannot demonstrate that they would need it in addition to a loan.

## **7. What happens to withdrawal liability?**

There are two considerations for withdrawal liability: first, how to calculate withdrawal liability as it relates to the annuity purchases for participants in pay status and, second, how new withdrawal liability requirements under the bill affect total withdrawal liability amounts.

While some plan annuity purchases are akin to a partial termination and, therefore, are excluded from liability calculations, this is not the case with annuities purchased under the provisions of this bill. A plan participating in the PRA loan program must still count the benefits covered by the annuity contracts (or, if greater, the remaining payments due on the loan) when determining an employer's withdrawal liability.

The bill also includes a new rule for calculating withdrawal liability. If an employer withdraws from the Plan during the term of the loan, withdrawal liability of that employer will be determined as if it were a mass withdrawal. Specifically, the plan must eliminate the 20-year cap on the number of withdrawal liability payments and require the withdrawing employer to pay its share of reallocation liability (see ERISA 4219(c)(1)(D)). Furthermore, PBGC single-employer plan termination actuarial assumptions must be used to value benefits when calculating withdrawal liability.

## **8. What happens if a plan cannot pay back the loan?**

If a plan has difficulty paying back its loan, the PRA must negotiate revised terms for repayment. These terms may include installment payments over a reasonable period and, if the PRA deems necessary to avoid any suspension of the accrued benefits of participants, forgiveness of a portion of the loan principal.

### **9. What kind of annuity can be purchase?**

While we think it is important to give plans the flexibility to choose the best vehicle for them, and the kinds of annuity vehicles grows every day, plans should purchase annuities that function similar to a fixed income annuity—that is a fixed (as opposed to variable) annuity that provides fixed payments over the term.

### **10. What is a cash-matching portfolio?**

The bill permits plans to segregate PRA Loan proceeds into cash-matching portfolios. A cash matching investment portfolio allows an investor to invest in securities with a certain expected return so that the investor will be able to pay for future liabilities. Cash matching portfolios are often recommended for retirees living off the income they make from the portfolio because they guarantee stable continuous payments similar to a fixed income annuity.

### **11. What is the government guarantee of the loan?**

The loans are paid for with the proceeds from the sale of Treasury Bonds. The bonds will be backed by the full faith and credit of the United States. The PRA will not have trouble raising the money because investors want long term bonds that carry little risk.

### **12. Do retirees lose PBGC protection?**

No. The plan will still pay premiums to PBGC for all participants including retirees. And while the bill makes plan insolvency for non-terminated plans very difficult, if a plan were to go insolvent, PBGC would provide their guaranty for all participants in the plan.

### **13. How can the PBGC afford to provide financial assistance?**

PBGC would not be required to pay financial assistance from its normal funding source. Instead, the bill includes a provision to provide PBGC with appropriated funds equal to the amounts as may be necessary for each fiscal year to provide the financial assistance described in the bill.

### **14. What are the criteria for approval?**

To be approved for a PRA loan a plan must, at a minimum demonstrate that the loan will enable the plan to avoid (or emerge from) insolvency for at least the 30 year loan period and that the plan is reasonably expected to be able to pay benefits and the interest on the loan during such period and to accumulate sufficient funds to repay the principal when due. The PRA may request that the plan provide additional demonstrations prior to approval.

### **15. How long does the PRA have to review the applications?**

The PRA must approve or deny an application within 90 days after the submission of such application. An application will be deemed approved unless, within those 90 days, the Director notifies the plan sponsor that the determinations or demonstrations in the application are clearly in error.

**16. How much financial assistance is PBGC providing to critical and declining plans?**

If a critical and declining plan needs PBGC assistance to remain solvent (not all plans will), PBGC assistance is available. The intent of this bill is for those plans that need it, PBGC will ensure they emerge from insolvency and thrive in the long term. With that in mind, If a plan's application is approved and PBGC assistance is required, PBGC would provide enough financial assistance so that, in combination with the loan, the plan would no longer face insolvency.

**17. Is there a limit on PBGC financial assistance to critical and declining plans?**

The only limit on PBGC financial assistance to critical and declining plans is that, generally speaking, PBGC should not pay more than it would pay if the plan were to go insolvent on the day the plan submits its application.