United States House and Representatives
House Education and Workforce Pensions Subcommittee
Hearing on "Challenges Facing Multiemployer Pension Plans: Reviewing the Latest Findings by PBGC and GAO"
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On behalf of the 1.3 million members of the United Food and Commercial Workers International Union, I'm pleased to submit this testimony to the Education and Workforce Pension Subcommittee. This hearing is both timely and critical to the 10 million workers and retirees who are accruing and receiving benefits from the multiemployer pension system.

Since 2003, I've served as the International Secretary-Treasurer of the UFCW International Union. The UFCW represents members in the U.S. and Canada predominantly in the retail food and food manufacturing industries. Through collective bargaining, the UFCW sponsors over 60 multiemployer pension plans across America along with large supermarket chains like Kroger, Safeway, Supervalu, and Ahold USA. These plans cover approximately 700,000 active workers and an additional 700,000 retirees and terminated workers with a right to a vested pension in the future. UFCW multiemployer plans are especially unique in providing pension coverage to part-time workers.

As part of my responsibilities, I serve as the Chairman of the UFCW's largest multiemployer pension plan, the UFCW Industry Pension Fund. The Industry Pension Fund is a $5.2 billion plan that covers 92,000 active workers employed by 500 different employers. In 2012, the Industry Pension Fund paid $268 million in benefits to 62,000 retirees. All of our multiemployer plans are defined benefit plans that pay lifetime benefit annuities. The benefits are modest, averaging just over $500 per month.

Multiemployer Plans are governed by the funding and fiduciary rules established by ERISA. The Taft-Hartley Act requires that the Board of Trustees of these plans consist of an equal number of labor and management trustees. Neither labor nor management dominates the governance of these Plans. Labor and Employers act as co-partners in the management of these plans as it relates to administration, funding policy, and investment policy.

The past decade of financial crises has destabilized many of our multiemployer plans. Starting with the Tech Bubble in 2000-2002, followed by the Global Financial Crisis in 2008, our plans have suffered two major drawdowns that reduced funding ratios and in some cases threatened plan solvency. The experience of the capital markets in the past decade has been unprecedented and presents one of the most adverse environments for institutional investors in the post-World War II era. Since 2008 pension trustees have had to contend with highly volatile financial markets alongside historically low interest rates. The Federal Reserve Bank's quantitative easing strategies are unfriendly to pension plans.

Pension plan funding ratios today are more sensitive to investment risk because the plans have matured – inactive benefit liabilities are more than two times active liability, the workforce has aged, and the plans are now paying more in benefits than receiving in contributions resulting in negative cash flow. As a result, investment returns are critical. When returns fall below expected assumptions, the impact on the funding ratio is dramatic. Because of the PPA's annual certification process, a significant number of plans are one bad investment year away from triggering red zone critical status.

The UFCW supported and lobbied for the passage of the Pension Protection Act of 2006 (PPA). The UFCW and the Employers we bargain with adopted many of the principles of PPA well before it was legislated. A number of UFCW plans proactively implemented funding improvement plans that implemented prospective benefit reductions and contribution increases prior to 2008. Many plans actively reduced investment risk in their portfolios through further diversification of assets away from public equities. But the magnitude of events in the financial markets in 2008-2009 was over-whelming. Multiemployer Plans lost between 20-30 percent of their assets in 2008-2009. Added to these losses were the expected returns of

7-8 percent that were not realized. Five years later, plan assets have barely recovered to 2007 levels.

PPA became effective in 2008, the same year that the Global Financial Crisis hit the U.S. economy with the force of a category 5 hurricane. Congress could have never anticipated 2008 and the devastation it would incur on pension plans. At the same time, PPA dramatically recast the funding rules first established by ERISA in 1974. Plan trustees were required to interpret and comply with PPA in the midst of a funding crisis that they were not responsible for. The regulatory agencies responsible for PPA continue to offer very little guidance. For reasons unknown to me, Congress decided not to address PPA complexity in technical corrections legislation. This is one of the reasons why the UFCW endorses the NCCMP Retirement Security Review Commission proposals.

In our experience, Labor and Employer trustees on UFCW plans have worked tirelessly with their legal and actuarial advisors to comply with PPA. Our red and yellow zone plans have adopted rehabilitation and funding improvement plans that allow these plans to emerge as safe green zone plans in 10-13 years as required by law. These efforts have spread equal pain in the form of higher contribution for employers and reduced benefits for participants. The UFCW has at least five plans that are deeply troubled and threatened by insolvency and must utilize the “reasonable measures” safe harbor provisions of PPA. We believe that the additional tools for deeply troubled plans recommended by the NCCMP Retirement Security Review Commission would help these plans survive. In fact, the Joint Labor Management Committee for the Retail Food Industry which includes the UFCW, Kroger, Safeway, Supervalu, and Ahold USA endorsed the Commission Report.

The UFCW has been proactive in defense of its pension plans. The Industry Pension Fund that I chair has successfully remained fully funded and a safe green zone plan under PPA through managing a disciplined funding policy and taking active measures to de-risk its investment program. This was accomplished through a partnership between the Union trustees, the Employer trustees and the respective bargaining party stakeholders. Every two years the trustees reset the actuarial cost of the benefits. The bargaining parties must adjust to this cost reset or future benefits will be decreased. In addition, the trustees reduced early retirement subsidies and require 10% of every contribution dollar to be held in reserve to amortize any unfunded liability. The plan's investment committee has taken a number of sophisticated steps to control investment risk. As a result, the Industry Pension Fund's losses in 2008 were half of the average losses suffered by multiemployer plans.

In 2011, the UFCW and Kroger completed a novel pension transaction that merged four red zone plans to create one fully funded green zone plan. The new plan covers 180,000 participants. The 10 year agreement that created this new fund set out an explicit arrangement to fully fund the new plan and establish a new future service defined benefit plan. In its first year of operation in 2012, Kroger contributed $1.0 billion into this plan bringing its funding ratio from 71% to 100%. Kroger utilized today's low interest rates to borrow the necessary contributions in the public debt markets to pre-fund this plan. This partnership between the UFCW and Kroger sets an example for others to ensure the pension security for their workers and retirees. Not all companies have the credit worthiness of Kroger and its access to the public debt markets. The U.S. Government could greatly enhance retirement security by offering to guarantee corporate bonds or loans dedicated to pre-fund pension plans.

The recent reports issued by the Pension Benefit Guaranty Corporation (PBGC) paint a grim picture of the multiemployer pension system. The global financial crisis destroyed trillions of dollars of retirement wealth. The Boston College Center for Retirement Research "Retirement Risk Index" suggests that over 50% of Americans cannot support a decent standard of living when they retire. We cannot afford to allow existing pension plans to wither and die. Millions of American workers and retirees and their families depend on

Multiemployer pension plans. Pension leaders in the retail food industry have been proactive and creative and through self-help have protected the retirement security of hundreds of thousands of plan participants. I urge the committee to support our efforts and take all actions necessary to preserve and secure multiemployer pension plans which play a critical role in delivering retirement income to so many Americans. The NCCMP Retirement Security Review Commission Report is a roadmap to achieving that goal.