House MEP bill could fuel pension risk transfer deals

By Editorial Staff *Thu, Jul 25, 2019*

According to a CBO estimate, HR397 calls for loans and grants to insolvent or troubled multiemployer pensions totaling almost $49 billion between 2019 and 2024 and almost $68 billion over the subsequent decade.

"**The Rehabilitation for Multiemployer Pensions Act of 2019**," or H.R. 397, has passed the House of Representatives. Word on the street is that, if the bill becomes law, it could generate billions of dollars in new business for life insurers such as Prudential, MassMutual and Principal Financial that are active in the pension risk transfer business.

According to a Congressional Budget Office **estimate**, the bill calls for loans and grants to insolvent or near-insolvent multiemployer pensions totaling almost $49 billion between 2019 and 2024 and almost $68 billion over the subsequent decade.

The plans, known as MEPs, are defined benefit pension plans that cover workers at more than one company. The workers or the companies in the plan typically have something in common, such as the same union or the same industry.

Introduced by Ways & Means Committee chair Richard Neal (D-MA), the bill would provide certain insolvent or near-insolvent multiemployer defined benefit pension plans with loans and grants from the government. The newly created Pension Rehabilitation Administration within in the Department of the Treasury would administer the loans.

Under the bill, certain pension plans facing insolvency could apply to the PRA for a loan or apply jointly to the PRA and Pension Benefit Guaranty Corporation (PBGC) for loans and grants; some plans would be required to apply.

Those loans and grants could be used to buy group annuities from a life insurer. According to the bill, the annuity contracts purchased shall be issued by an insurance company which is licensed to do business under the laws of any State and which is rated A or better by a nationally recognized statistical rating organization, and the purchase of such contracts shall meet all applicable fiduciary standards under the Employee Retirement Income Security Act of 1974.

A plan could borrow up to the amount it needed to pay lifetime benefits to people who already receive benefits (referred to as being in pay status), to former employees who are entitled to receive benefits in the future (called terminated vested participants), and to their beneficiaries.

The loan period would be 30 years and the interest rate would be tied to the rate for 30-year Treasury bonds. If the PRA evaluated the application and determined that a plan could not repay a loan in full and still remain solvent, the plan would receive a smaller loan, and the difference would be covered by grants from PBGC.

Those grants could not exceed the estimated value of benefits that would otherwise be guaranteed under current law by PBGC if the plan was insolvent on the day of its application. Pension plans would not be required to repay the grants received from PBGC.

The bill also includes several provisions that would increase revenues, including ones that would modify the required distribution rules for certain beneficiaries of tax-favored retirement plans after the death of the employee or account holder, increase penalties for certain required filings and notices, and require information sharing related to the heavy vehicle use tax.