



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 6, 2016

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Lamar Alexander
Chairman
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

The Honorable Patty Murray
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

Dear Chairmen and Ranking Members:

Earlier today, we informed the Central States Pension Fund (Central States) that its application for benefit suspension was denied for failing to satisfy the requirements set out in the Kline-Miller Multiemployer Pension Reform Act of 2014 (Kline-Miller). The letter from Special Master Kenneth Feinberg informing Central States of our decision is attached. That letter explains the ways in which the Central States application failed to meet Kline-Miller's requirements. Specifically, the application failed to meet the requirement to demonstrate that the proposed benefit reductions are reasonably estimated to allow the plan to avoid insolvency, the requirement that reductions be equitably distributed, and the requirement to provide notices that are understandable to the average plan participant.

Our decision on the Central States application means that approximately 270,000 Central States participants will not face reductions to their pension benefits this July. While we expect that this will come as a relief to these participants, our decision does not resolve the issues threatening their pension benefits. The Central States plan, like a number of other multiemployer plans, remains severely underfunded and is projected to become insolvent within the next 10 years. Moreover, absent congressional action, by the time the Central States plan becomes insolvent, the Pension Benefit Guaranty Corporation (PBGC) multiemployer insurance fund—which insures part of those benefits—may itself already be insolvent.

Having concluded review of our first application, we must reflect on the lessons learned to date regarding the consequences of the benefit suspension process laid out in Kline-Miller. Special Master Feinberg's concerted efforts to listen to the views and concerns of affected individuals and families have helped us to better understand the potential impact and consequences of the law.

Indeed, since Central States submitted its application, many stakeholders, including Members of Congress on both sides of the aisle, have recognized the harshness of the cuts needed to meet the terms required by the law. Some have suggested that Treasury take alternative approaches, such as requiring Central States to propose a smaller across-the-board benefit cut or impose smaller reductions for a set period of time before committing to deeper cuts. But Kline-Miller does not permit Treasury to take such actions.

Other aspects of the law also have elicited criticism. The treatment of so-called “orphans”—participants whose employers withdrew from the plan without paying their full withdrawal liability—under the Central States application and the lack of representation for the interests of retirees are built into the law and not subject to our discretion. The same is the case for the inequities associated with the voting process, especially for plans deemed to be “systemically important” under Kline-Miller, for which a participant vote on cuts will not prevent benefit reductions.

Today’s decision does not resolve these issues. Treasury has received several other applications and will continue to carry out our responsibilities under Kline-Miller, including approving other applications if they meet the requirements of the law. Importantly, Central States may choose to reapply and propose even larger cuts in order to meet the requirements of Kline-Miller.

We urge Congress to consider carefully the issues that have emerged, even as we continue to carry out our assigned responsibilities to implement Kline-Miller. Finding a balanced solution will require painful choices, but we must work together to preserve the promise of retirement security that these workers have bargained for and earned. We stand ready to work together and look forward to engaging further on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacob J. Lew", written in a cursive style.

Jacob J. Lew

Enclosure



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 6, 2016

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Sander M. Levin
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable John Kline
Chairman
Committee on Education and the Workforce
U.S. House of Representatives
Washington, DC 20515

The Honorable Robert C. "Bobby" Scott
Ranking Member
Committee on Education and the Workforce
U.S. House of Representatives
Washington, DC 20515

Dear Chairmen and Ranking Members:

Earlier today, we informed the Central States Pension Fund (Central States) that its application for benefit suspension was denied for failing to satisfy the requirements set out in the Kline-Miller Multiemployer Pension Reform Act of 2014 (Kline-Miller). The letter from Special Master Kenneth Feinberg informing Central States of our decision is attached. That letter explains the ways in which the Central States application failed to meet Kline-Miller's requirements. Specifically, the application failed to meet the requirement to demonstrate that the proposed benefit reductions are reasonably estimated to allow the plan to avoid insolvency, the requirement that reductions be equitably distributed, and the requirement to provide notices that are understandable to the average plan participant.

Our decision on the Central States application means that approximately 270,000 Central States participants will not face reductions to their pension benefits this July. While we expect that this will come as a relief to these participants, our decision does not resolve the issues threatening their pension benefits. The Central States plan, like a number of other multiemployer plans, remains severely underfunded and is projected to become insolvent within the next 10 years. Moreover, absent congressional action, by the time the Central States plan becomes insolvent, the Pension Benefit Guaranty Corporation (PBGC) multiemployer insurance fund—which insures part of those benefits—may itself already be insolvent.

Having concluded review of our first application, we must reflect on the lessons learned to date regarding the consequences of the benefit suspension process laid out in Kline-Miller. Special Master Feinberg's concerted efforts to listen to the views and concerns of affected individuals and families have helped us to better understand the potential impact and consequences of the law.

Indeed, since Central States submitted its application, many stakeholders, including Members of Congress on both sides of the aisle, have recognized the harshness of the cuts needed to meet the terms required by the law. Some have suggested that Treasury take alternative approaches, such as requiring Central States to propose a smaller across-the-board benefit cut or impose smaller reductions for a set period of time before committing to deeper cuts. But Kline-Miller does not permit Treasury to take such actions.

Other aspects of the law also have elicited criticism. The treatment of so-called “orphans”—participants whose employers withdrew from the plan without paying their full withdrawal liability—under the Central States application and the lack of representation for the interests of retirees are built into the law and not subject to our discretion. The same is the case for the inequities associated with the voting process, especially for plans deemed to be “systemically important” under Kline-Miller, for which a participant vote on cuts will not prevent benefit reductions.

Today’s decision does not resolve these issues. Treasury has received several other applications and will continue to carry out our responsibilities under Kline-Miller, including approving other applications if they meet the requirements of the law. Importantly, Central States may choose to reapply and propose even larger cuts in order to meet the requirements of Kline-Miller.

We urge Congress to consider carefully the issues that have emerged, even as we continue to carry out our assigned responsibilities to implement Kline-Miller. Finding a balanced solution will require painful choices, but we must work together to preserve the promise of retirement security that these workers have bargained for and earned. We stand ready to work together and look forward to engaging further on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacob J. Lew", written in a cursive style.

Jacob J. Lew

Enclosure