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Central States Rescue Plan Rejected

Treasury Denies Pension Cuts for 270,000+

More than 270,000 union workers and retirees can breathe a sigh of relief after the Treasury Department rejected a proposal to reduce their benefits. This relief, however, is likely temporary.

The proposal was filed by the Central States Pension Fund, one of the largest pension funds in the country, covering union workers and retirees from more than 1,500 companies. The Pension Fund is in critical and declining status, expected to reach insolvency within ten years. Currently, it is paying out $3 for every $1 it takes in. If the Fund does reach insolvency, the Pension Benefit Guaranty Corporation (PBGC) is required to take over the Plan and pay a portion of benefits to retirees. With the size of the Central States Pension Fund, this could capsize an already cash-strapped PBGC.[1]

The Multiemployer Pension Reform Act of 2014, also referred to as the Kline-Miller Act, allows multiemployer plans to propose to the Treasury Department a temporary or permanent reduction of benefits to avoid insolvency. The Treasury Department, in conjunction with the Department of Labor and PBGC, determines if the proposal complies with the requirements of the Kline-Miller Act and grants an approval or disapproval status. If the proposal is approved, the benefit reduction must then be voted on by the plan's participants and beneficiaries before it can take effect.[2]

On May 6th, the Treasury notified the Central States Pension Fund that their application for benefit reduction was denied on the basis that it did not meet the necessary requirements. Writing on behalf of the Treasury as Special Master, Kenneth Feinberg explained that the proposal was denied citing:[3]

- Unreasonable investment return and new entrant age assumptions,
- Inequitable distribution of benefit reductions across the population of participants and beneficiaries,
- Failure of the required participant notice to "be written in a manner so as to be understood by the average plan participant"; and
- Inability of the proposed rescue plan to satisfy the statutory requirement that it be reasonably estimated to avoid insolvency.

Had the proposal been approved, approximately 270,000 people would have seen their benefits reduced beginning this coming July.[3]

According to a press release issued by the Central States Pension Fund, they are disappointed with the Treasury's decision, seeing it as the only realistic solution to avoid

[1] Lobosco, K. Treasury rejects pension cuts for 273,000 workers and retirees. CNN Money. 6 May 2016.
[2] Kline-Miller Multiemployer Pension Reform Act of 2014 FAQs. Pension Benefit Guaranty Corporation - A U.S. Government Agency.
[3] Letter to the Board of Trustees, Central States, Southeast and Southwest Areas Pension Plan from the Department of the Treasury. 6 May 2016.

insolvency. “Central States Pension Fund remains in critical and declining status and is projected to run out of money within ten years, or even less. Because the Pension Benefit Guaranty Corporation (PBGC), the government’s pension insurance program, is also projected to run out of money, today’s decision means that, absent legislative action or an approved rescue plan, Central States participants could see their pension benefits reduced to virtually nothing.”[4] The Fund is allowed to submit a new proposal to the Treasury if they see fit, which seems likely.

This proposal was the first of its kind to be reviewed by the Treasury under the Kline-Miller Act. Four other pension funds have subsequently filed proposals to cut pension benefits, as well.

[4] Press Release - Treasury Denies Central States Rescue Plan: What Next?. Central States Pension Fund. www.CSPensionRescue.com