United States Senate
WASHINGTON, DC 20510

April 15, 2016

The Honorable Jacob Lew
Secretary of Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: TREAS-D0-2015-0009-0001

Dear Secretary Lew,

We write today regarding the Board of Trustees of the Central States, Southeast and Southwest Areas Pension Plan's (hereafter, Central States Pension Fund or CSPF) September 25, 2015 application to the Treasury Department (Treasury) for a reduction in the pension benefits of the participants in its plan. Central States Pension Fund submitted this application in accordance with the Multiemployer Pension Reform Act of 2014 (MPRA). According to the CSPF application, the proposed cuts will affect about 270,000 retirees with a significant number of those retirees facing cuts of 50 percent and, in some cases, more than 70 percent of their monthly pension.

In light of the enormous stakes that retirees face as Treasury determines whether CSPF's application meets the statutory conditions allowing benefit cuts, we ask Treasury to conduct a thorough analysis and carefully check every aspect of CSPF's application. There is no question that the Central States Pension Fund is in a dire financial situation. In the event of a CSPF insolvency, the multiemployer program at the Pension Benefit Guaranty Corporation (PBGC), which is projected to go insolvent in 2025, will run out of money much sooner and benefit cuts to CSPF beneficiaries, as well as for other retirees in other plans under the PBGC, will be much steeper absent Congressional intervention. There is also no doubt that retirees will face a significant burden as a result of these pension cuts. Not only will they lose accrued pension benefits they have earned and deserve, but many will also lose income they rely on to meet basic needs like heating their homes and putting food on their tables.

This comes at a time when workers, retirees, and surviving spouses across the country are worried about the state of their pensions. They contributed to their pensions over the course of many years – making the sacrifices of giving up better pay or improved benefits, or even staying in a physically exhausting job that took them away from their families – so they could earn a pension that they believed could never be taken away.

Under MPRA, financially distressed, "critical and declining" multiemployer plans that are projected to become insolvent within 15 to 20 years may apply to Treasury to suspend benefits upon meeting criteria enumerated in the statute. And further, under Treasury's temporary regulations, any multiemployer plan applying for cuts must have at least a 50 percent chance of avoiding insolvency over the extended period.[1] CSPF states in its application that the "probability the plan will avoid insolvency through the extended period" after benefit cuts have been enacted is 50.4 percent.[2] We urge Treasury to scrutinize all of the assumptions underlying this estimate, since even small changes in the assumptions could move CSPF under the 50 percent mark – meaning it would not meet the statutory conditions under which cuts are permitted. In light of the enormous stakes for the 270,000 CSPF retirees, we expect Treasury to conduct a thorough analysis and carefully check every aspect of CSPF's application and their assumptions, including, but not limited to, the following:

1. **Are market conditions appropriately taken into consideration?** CSPF's probability of remaining solvent was calculated based on total CSPF assets as of June 30, 2015, although the application was not filed until September 25, 2015, after the close of the third quarter. Unfortunately, unfavorable market conditions have resulted in significant losses for many plans, including CSPF, even before the date the application was officially filed. Treasury should examine whether the requirements in the statute for approval of the application are met if these losses are appropriately taken into account.

2. **Are the investment assumptions contained in the application reasonable?** Horizon Actuarial Services, LLC's conducts a Survey of Capital Market Assumptions (2015) based on the opinions of 29 actuarial firms (including Segal Consulting, the firm hired by CSPF). Using this benchmark, CSPF's expected returns exceeded the average in certain asset classes by 1.17 to 3.75 percent.

3. **Are future employer contribution assumptions realistic?** CSPF's application expects average employer contributions will more than quadruple over the next 50 years, significantly exceeding inflation. By 2064, CSPF anticipates that it will require an average weekly contribution of $876 per active participant.[3] We believe that Treasury should look at whether these assumptions are reasonable given the current and likely future financial circumstances of many of the current employers participating in CSPF, including whether it is more likely that employers faced with significant pension plan cost increases well outpacing inflation will simply opt to withdraw from the plan instead.

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[1] Prop. Treas. Reg. 1.432(e)-1(c)(ii)(2); Prop.Treas. Reg. 1.432(e)-1(c)(ii)(5)(C).

[2] *See* CSPF Application, Item 7, Exhibit V, "Stochastic Projection of Proposed Suspension."

[3] CSPF Application, Item 7, Exhibit VI, "Projected Total Contribution Base Units and Average Contribution Rates."

4. **Has Central States Pension Fund pursued all other reasonable measures before considering cuts?** By law, before any cuts to the accrued pension benefits of hundreds of thousands of active participants and retirees are implemented, CSPF must meet a statutory obligation to pursue all other reasonable measures to avoid the insolvency of the plan.

Given the stakes, we ask that you proceed with a careful analysis when making a determination on this application. It is of utmost importance that Treasury gets this right.

Thank you for your consideration of our views on this important matter. Please do not hesitate to contact us if we may be of assistance.

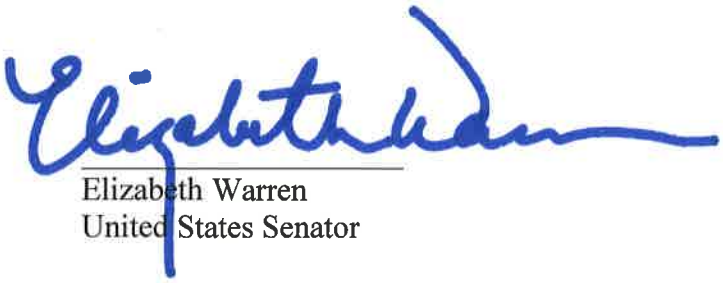
Sincerely,

Harry Reid
United States Senator

Ron Wyden
United States Senator

Patty Murray
United States Senator

Sherrod Brown
United States Senator



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