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Update on Issues Affecting Taft-Hartley Plans

Taking the Taft-Hartley defined contribution plan to the next level

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There was a time when Taft-Hartley multiemployer defined contribution (DC) plans were considered a supplemental retirement benefit to the members; in fact, the word "supplemental" was included in many of the plan names. As a result, many of these plans have not received extensive attention and remain valued only on an annual or quarterly basis, with the assets placed into a single investment that the trustees manage. However, because of the global financial crisis of 2008 and the aging population of the membership, trustees have been exploring additional solutions to provide lifetime income to their members, which has been historically accomplished predominately by the defined benefit (DB) plan. This has created an increased focus on the defined contribution plan and the desire of both the trustees and participants to bring visibility to this valuable benefit. This paper will explain the merits of moving the defined contribution plan from a balance forward, periodic-valued, trustee-directed plan to a daily-valued, self-directed plan that participants can view and monitor every day in order to make more informed decisions about their retirement.

Executive summary

Many multiemployer defined contribution plans began in the 1980s and 1990s and have seen plan assets grow substantially over time. Taft-Hartley defined contribution plan assets range anywhere from a few million dollars to more than $2 billion. For older participants who have been in the plan for decades, it is not uncommon to see balances worth a few hundred thousand dollars and up to more than $1 million. As a result, trustees have an increased fiduciary responsibility to ensure these plans are being run efficiently and in the best interests of the participants and their beneficiaries. Bringing the plan into a daily-valued environment that allows the participant to direct their investments offers the following advantages:

- Allows participants to plan for retirement intelligently by giving them access to websites, mobile apps, call centers, and the latest financial planning tools
- Provides more timely and accurate accounting of contributions and distributions
- Enables visibility and transparency of a great benefit
- Aligns with the competitive marketplace

Planning for retirement

When participants have been working in their occupations for 20 to 30 years, it is likely they have accumulated sizable account balances. Allowing them to self-direct their accounts during the early to middle years of their careers can have a significant impact in helping them achieve their retirement goals. For those participants who have little interest in choosing their investments or are too busy to pay attention to the benefit, investing their money into a qualified default investment alternative (QDIA), such as a target date fund, allows for an investment strategy that aligns the participant's retirement date with his or her investment risk (i.e., portfolios shift to a more conservative allocation as the member gets older). A QDIA is a default fund for participants who do not make an election, and as long as certain criteria are met it affords plan trustees fiduciary protection under ERISA §404(c). Moving to self-direction enables additional fiduciary protection for trustees attempting to manage an investment allocation that provides expected returns for the long-term retirement horizon of a 20-year-old participant while mitigating the volatility risk of a 60-year-old participant nearing retirement. These two objectives fall on opposite sides of the investment spectrum and highlight a significant challenge that is extremely difficult to achieve.

As participants approach retirement, an important component of retirement planning is the ability to develop a holistic view of all benefits accrued: defined benefit, defined contribution, Social Security, etc. When a defined contribution plan is not valued daily, the participant is viewing dated information that does not take into account market fluctuations and contributions for the current period. Allowing the plan to be valued daily will enable them to view their account balances or request current information about their accounts. Therefore, the participant will have a better understanding of his or her retirement needs.

In the same regard, bringing increased visibility to the defined contribution plan for apprentices and journeymen allows them to create a strategy for how to invest their accounts. Based on their individual situations, participants can invest their balances more conservatively or more aggressively. There are also professionally managed investment tools and programs that can take into consideration all of the participant's retirement accounts, such as outside assets, spousal accounts, etc. These tools can assist members with providing investment allocations of their defined contribution plans based on these other benefits.

Accurate distributions

Distributions from a daily-valued plan are based on the closing price of the investment or investments on the day the distribution is processed. Therefore, the participant is getting the most accurate distribution possible. In contrast, when a plan is periodically valued, the participant is typically getting a distribution based on the last valuation date, which can be problematic to both the plan and the participant. During the time period of the last valuation to the date of distribution, participants may get significantly more or less than what may be warranted, based on market conditions during that period. If they get more than their fair distribution, it adversely affects other participants in the plan. If they are getting less, then it adversely affects their own status within the plan. As a trustee, this should be concerning. Having a daily-valued plan ensures an accurate distribution, so participants receive their accurate allotment, thereby avoiding unnecessary impacts to other participants.

Visibility

Another reason to bring the defined contribution plan into daily valuation is so participants can understand what a significant benefit they have for their retirement. When the plan is valued annually, the participant receives a statement once a year (usually several months after the year-end), with no way of viewing how their account is performing during the year. In a daily-valued environment, participants can view their accounts on a daily basis via the Internet, mobile application, or customer service center. In addition, the participant will receive a quarterly statement. This allows participants to make informed decisions on where their money is invested and, more importantly, to see how it fits into their overall retirement strategy. It also gives them greater appreciation of all the benefits they receive as a result of being a member of a union. This is especially true in a market environment where businesses and unions are competing for the best talent available, and many employers are sponsoring daily-valued defined contribution plans as part of their benefits packages.

Conclusion

Bringing the defined contribution plan into a daily valuation environment in which participants can direct their investments is an advantage to both the trustees and the participants. For the trustees, it reduces their fiduciary burden and allows them to showcase the benefit to their membership. For the participants, the visibility of the defined contribution plan allows them to better plan and invest for retirement, receive accurate and timely distributions, and have a greater appreciation of the benefits being provided to them. Today, where most investments are easily valued on a daily basis and trading among investments is an automated process, it is worth considering taking this next step to bring the defined contribution plan to the next level.

CONTACT

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