The Daily Dish

A Good, Old-Fashioned Taxpayer Bailout

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Eakinomics: A Good, Old-Fashioned Taxpayer Bailout

Remember when everything was labeled a taxpayer bailout? Fear not, the real thing is back. The House passed the Rehabilitation for Multiemployer Pensions Act (RMPA) by a vote of 264-169 on Wednesday.

The RMPA, H.R. 397, would provide loans and grants to multiemployer plans. The loans would be issued by a brand-new Treasury unit called the Pension Rehabilitation Administration (PRA), while the grants would be from the Pension Benefit Guaranty Corporation (PBGC). The basic notion is that a multiemployer plan that is in trouble would apply to the PRA for a loan. If the PRA decides that the multiemployer plan couldn't repay a loan, it would issue a loan that the multiemployer plan can handle, and the PBGC would provide a grant for the remainder. Loans cover lifetime benefits to those already retired, to former employees who will claim benefits in the future, and to current participants in the multiemployer plan. The loan duration would be 30 years, and the interest rate would be tied to the rate for 30-year Treasury bonds.

Multiemployer plans are a big policy problem. In 2014, there were 1,403 multiemployer defined-benefit pension plans with 10.1 million participants. Of these participants, 4 million were active participants and 6.1 million were retired or separated participants either receiving or eligible to receive benefits. Unfortunately, the liabilities of the multiemployer plans exceed $1 trillion, while the assets total only $420 billion — and the problem gets worse every day. At present, if a plan fails, it will be taken over by the PBGC. That is the good news. The bad news is that the PBGC itself is on the road to insolvency as well, so it is quite likely that the ultimate backstop is the U.S. taxpayer. Sound familiar?

So something clearly has to be done and the list of options is pretty simple. First, one could put more money into the multiemployer plans. But many employers are leaving the multiemployer-plan system, and the remainder are loathe to pick up the bill for the history of underfunding. Second, one could cut the benefits coming out of the multiemployer plans. That, in turn, is a cruel financial turn of events for those retired and an anathema to those currently working. Third, one could buy time to get the pension plan in order, but that means simply stretching out the period over which options one and two are implemented. That is where loans come into the picture.

The RMPA puts more money in — grants from the PBGC, which will then fail, so the grants are just a disguised picking of the taxpayers' pocket. Of course, loans should be used to buy the time to raise contributions and cut benefits. But in the absence of that, as is the case under the RMPA, the loans are an empty policy. Or worse, they might invite the multiemployer plans to undertake highly risky investments as a way of making high earnings and closing the underfunding.

So, in the end, the RMPA is simply a promise for another taxpayer bailout. The loans put off the day of reckoning or encourage the pension funds to go to the casino. Neither is a real solution.