The Daily Dish

Taking Another Run At MEP Reform

DOUGLAS HOLTZ-EAKIN | NOVEMBER 22, 2019

Eakinomics: Taking Another Run At MEP Reform

I've said it before, but it remains true: Pensions might not be America's greatest strength. Private pension coverage is far from universal, and in firms that ultimately face bankruptcy, the pensions are often underfunded. If so, the plans are transferred to the Pension Benefit Guaranty Corporation (PBGC), which — awkward! — does not actually guarantee a full pension. Also, in the foreseeable future — more awkward! — the PBGC itself will run out of money. The pièce de résistance, however, remains Social Security — the social insurance safety net that is the source of financial risk, is unsound and unsafe, and without reforms will not even be a net.

Making a run for the title of worst pension system, however, are the Multiemployer Pensions (MEPs). As nicely summarized by AAF's Gordon Gray and Anupam Roy, "Multiemployer defined-benefit plans are collectively bargained, i.e. union, pension plans maintained by more than one employer. Over 10 million workers are covered under about 1,413 such plans. The system as a whole has deteriorated in recent years, and some plans are severely underfunded. The likely collapse of these plans could precipitate federal intervention. Indeed, recent legislation has already attempted to mitigate this challenge, but is unlikely to alter materially the pending insolvency of some large plans." Congress created the Joint Select Committee on Solvency of Multiemployer Pension Plans to develop reforms to improve the solvency of multi-employer pension plans. It failed.

So it is heartening to see that Senators Grassley and Alexander are taking another run at MEP reforms. There are not a lot of details, but the basic menu is pretty clear. First, ask all the stakeholders to take a haircut — that means more money put in from firms participating in MEPs, and smaller payouts for those covered by a MEP. Second, put some taxpayer backing behind the PBGC so that when it exhausts its holdings, payouts can continue. Third, buy a little time for pensions to put themselves in better financial condition; this could take the form of loans. And, finally, be honest about the financial condition of a MEP by using a realistic discount rate — e.g., don't pretend an asset will earn excessive returns as far as the eye can see.

Regardless of the ultimate details, the Senate proposal already stands in sharp contrast to the bill passed by the House. That legislation featured large, forgivable loans from the federal government. Unfortunately, according to the Congressional Budget Office the federal government would disburse $39.7 billion in loans to certain multiemployer pension plans, but "about one-quarter of the affected pension plans would become insolvent in the 30-year loan period and would not fully repay their loans" and "[m]ost of other plans would be insolvent in the decade following their repayment of their loans." In less polite terms, it is a good, old-fashioned taxpayer bailout.

The failure of the Joint Select Committee and the House means that the Senate starts with two strikes against MEP reform. Let's hope it can get a hit.