Insight

Getting to Yes on Sustainable Multiemployer Pension Reform

GORDON GRAY | DECEMBER 11, 2019

Executive Summary

- Both the House and Senate have leading proposals to address the multiemployer pension system crisis.
- Despite significant differences, both approaches recognize a federal role in shoring up the system.
- While offering far more modest taxpayer assistance than the House bill, the Senate approach also includes essential reforms to preclude future taxpayer assistance.

Introduction

At the end of last year, prospects for a durable policy solution to the impending collapse of several multiemployer pension plans and their federal backstop dimmed when a special congressional committee failed to reach consensus and dissolved. Since that time, the House of Representatives passed H.R. 397, which would provide nearly $70 billion in taxpayer loans and grants to keep troubled plans afloat. More recently, Senators Grassley and Alexander, chairmen of the Senate Committees on Finance and Health, Education, Labor, and Pensions, respectively, released an alternative reform approach that makes more structural reforms to the system while minimizing taxpayer risk.

Neither approach in its current form will become law, not least because the Senate proposal isn't legislation, but policymakers are making progress in staking out priorities. Further, both proposals acknowledge a role for the federal assistance, indicating potential movement toward compromise. While the competing House and Senate approaches to this problem are hardly similar, the continued willingness of each chamber's members to address this thorny issue is cause for optimism.

Scoping Taxpayer Involvement

Fundamentally, the multiemployer pension system is a relationship between private-sector employers and their employees. There should be no taxpayer risk in this relationship. There is a federal pension backstop in this system, however, the Pension Benefit Guaranty Corporation (PBGC), which makes it a federal public policy concern. The PBGC is projected to become insolvent by 2025 as failing plans file assistance claims.

The pending collapse of large multiemployer pension systems and its federal insurer, and the resultant loss of retirement savings for hundreds of thousands of retirees, is highly unlikely to go unnoticed or unaddressed by Congress. The possibility of committing any taxpayer funds to bail out these private plans is anathema to many policymakers and their constituents – but inaction will likely lead to a larger taxpayer commitment and less substantive reform.

The House-passed pension bill, H.R. 397, is instructive on the risks of inaction. It provides taxpayer-funded grants to highly underfunded plans and taxpayer loans that can be forgiven to struggling multiemployer pension plans. The taxpayer commitment is near $70 billion over 10 years, though separate tax provisions are estimated to reduce the net cost to the taxpayer. The most consequential element of this proposal is the *absence* of structural reforms to the system to prevent needing a bailout in the future. Moreover, the assistance is all taxpayer funded – it does not ask the system's stakeholders such as the employers, the unions, or the participants to contribute to the solution. Inaction on this issue will likely lead to this type of approach.

The Senate proposal takes a different approach and does not commit to shoring up plan underfunding with taxpayer dollars. It does contemplate a taxpayer commitment to shoring up PBGC, however, which in turn would partition – separate underfunded elements known as orphan liabilities – certain plans. This marks a new taxpayer commitment that is a departure from the position articulated by many conservative policymakers and observers. This is an important commitment development and could signal movement toward a compromise.

Structural Reform

Both the House and Senate approaches assume a role for the taxpayer in providing assistance to the multiemployer pension system. But any taxpayer assistance for these plans should be paired with reforms to the system to preclude a need for a future rescue. Despite the significant taxpayer commitment, under the House bill, H.R. 397, the CBO noted that "most multiemployer pension plans that received loans under H.R. 397 would become insolvent within a few years after the end of their loan repayment periods." Essentially, taxpayers would fund these private commitments for a few decades more before the system ultimately faces collapse again.

The Senate approach, while not as ambitious in its reforms as some policy observers may prefer, makes key reforms to how the multiemployer system is governed. Critically, the Senate reform plan acknowledges the need to tighten plans' measurement of liabilities. Multiemployer plans are permitted to estimate their liabilities with far greater discretion than single-employer plans. This policy change is long-overdue and highly consequential for lasting reform. As desirable as this policy is, a gradual implementation may be necessary to avoid precipitous plan failures. The Senate approach recognizes this reality and phases in a cap on the discount rate that plans can use to evaluate liabilities. Beyond this critical change, the Senate approach includes other key reforms that address some of the root causes of the crisis in the multiemployer pension system. These include simplifying and improving the lump sum payment – known as withdrawal liability – that firms must pay when exiting sponsorship of a plan. The proposal would also *increase* the PBGC guarantee of multiemployer plans, a change that can only be paired with other reforms and additional funding.

Stakeholder Funding

The Senate proposal also takes steps to shore up future funding for the PBGC. This approach would increase the current flat premium paid by plan sponsors to PBGC from $29 to $80 per participant. The reform would also layer on a variable premium tied to a plan's funding status and therefore risk to the PBGC. These reforms are hardly novel; they simply more closely align the multiemployer system with the single-employer system, which, despite experiencing the same demography and market forces, is not similarly underfunded. The Senate proposal would, in concert with increasing the PBGC guarantee amount, levy a new modest copayment on plan participants. The totality of these reforms would constitute the bulk of the funding needed under the proposal.

Conclusion

The multiemployer pension system, and the federal insurance program that guarantees at least some portion of its 10 million participants, is facing insolvency. Collectively, plan liabilities far outstrip plan assets, and the

PBGC simply does not have the resources to staunch the problem. At this stage in the crisis, the opportunity for ideal solutions is long past. The House of Representatives has commendably drafted, considered, and passed legislation that, in its members eyes, would address this problem. Unfortunately, the House bill would simply provide a massive taxpayer commitment that would ultimately bequeath the problem to the next generation. In the Senate, two committee chairs recently released a proposal that correctly focuses on reforms to make the system sustainable. The Senate should consider this approach and complete the hard word of legislating a lasting solution to this challenge.