Insight

The PBGC, Multiemployer Pensions, and the Historical Record

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Executive Summary

- Congress has so far failed to reach consensus on restoring solvency to the multiemployer pension system.
- Congress has a clear history of committing federal funds to insolvent federal programs.
- Policymakers should give greater weight to this counterfactual in evaluating potential policy options relating to the multiemployer pension system and its federal backstop, the Pension Benefit Guarantee Corporation.

Introduction

The multiemployer pension system represents around 1400 collectively bargained defined benefit retirement plans. Many of these plans are significantly underfunded and face a real risk of future insolvency. The federal backstop for multiemployer pension plans, the Pension Benefit Guaranty Corporation (PBGC), was created in 1974 to protect the retirement income of American workers participating in private sector defined benefit pension plans. Comparing the level of the PBGC's dedicated resources to the large projected liabilities facing the multiemployer pension system, however, indicates that the PBGC will not be able to successfully satisfy its future insurance obligations. Many policymakers have understandably raised the concern that any federal intervention will set a bad precedent and present moral hazard risk. That would be correct in the abstract, but the regrettable reality is that the federal government long ago set this precedent. This precedent is neither desirable nor binding, and Congress has the capacity to chart a separate course. Unfortunately, that deliberate policy choice is highly unlikely, and is accordingly an imperfect counterfactual against which to weigh potential policy options for addressing the risks posed by the multiemployer pension system and its federal backstop.

Multiemployer Pension Risk and Congressional Attention

Congress's Joint Select Committee on Solvency of Multiemployer Pension Plans (Committee) missed its November 30th deadline to report recommendations to improve the solvency of the multiemployer pension system and the PBGC. With the passage of time, an increasing number of multiemployer pension plans are expected to become insolvent. These insolvencies, as well as large plan participant failures, increase the risk of a chain reaction of further plan failures. The cost of potential federal intervention will only increase as time passes.

Committee Co-Chairs Orrin Hatch and Sherrod Brown issued a statement in which they committed to continue working toward addressing the issues of PBGC and multiemployer pension plan insolvency – but offering no new deadline for reporting recommendations. The scale of the overall challenge and the costs of the policy

options available will only grow with time, however. The Committee should thus avoid unnecessarily postponing the difficult policy decisions associated with rescuing the PBGC and the multiemployer pension system.

A History of Federal Intervention

While not exhaustive, Table 1 provides recent examples of financial intervention to support federally administered or sponsored programs that have approached or reached financial insolvency.

Table 1

Year	Program	Cost
2016-2018	Social Security Disability Insurance	$150 billion shifted from retirement program
2013	Federal Housing Administration's Mutual Mortgage Insurance Fund	$1.7 billion
2013	National Flood Insurance Program	$9.7 billion
2012	U.S. Postal Service	$11 billion
2008-2015	Highway Trust Fund	General Fund Transfers: $139.9 billion Leaking Underground Storage Tank Trust Fund Transfers: $3.7 billion
1991	FDIC Bank Insurance Fund	Given authority to borrow $30 billion
1989	Federal Savings and Loan Insurance Corporation	$15 billion in 1986 and 10.75 billion in 1987
1987	Ex-Im Bank	$3 billion

There is a strong tendency, and even a near certainty, that the federal government will come to the rescue of a federal program that finds itself in financial trouble. This has been true under both Republican and Democratic administrations and varied party compositions in Congress. It is with this context in mind that observers should consider the PBGC, a federally chartered corporation created by the Employee Retirement Income Security Act of 1974, which faces the risk of future insolvency.

Policy Implications

The historical reality of federal intervention has important implications. Policy intervention aimed at rescuing financially troubled federal programs has been a defining feature of federal policy since at least the 1980s. These policy interventions have been nonpartisan in nature. The 1987 rescue of the Export-Import Bank of the United States was passed by a Congress in which the Democrats controlled both houses. The 2012 $11 billion rescue of the U.S. Postal Service was passed by a divided Congress. More recently, the Republican-controlled 114th Congress passed a $150 billion diversion of funding to the Social Security Disability Insurance program without making any meaningful improvement in the solvency of the program. History has shown that the singular tendency, regardless of the structure of party control over Congress and the presidency, is for the federal government to rescue federal programs that face insolvency.

If government intervention is truly “current policy,” then policymakers should give greater weight to the following considerations:

1) What form should the policy intervention take?

2) When should the intervention take place?

As discussed previously, due to projected plan failures, growing claims on PBGC resources, as well as the possible risk of contagion, the cost of federal intervention will increase the longer policymakers avoid answering these two policy questions. A proper balance must be reached between taking the time necessary to arrive at an appropriate policy intervention and implementing it quickly. Once the appropriate policy intervention is decided, implementing it sooner rather than later will reduce both the cost of the policy to taxpayers, and the overall cost of the multiemployer pension crisis to the U.S. economy.

Conclusion

Policymakers should avoid unnecessarily postponing the difficult policy decisions associated with rescuing the PBGC and the multiemployer pension system. As unappealing as federal intervention may be, an honest assessment of the historical record suggests that not only is federal intervention possible, it is highly likely. Measured against this counterfactual, earlier federal intervention offers greater potential for less costly and more sustainable policy choices.