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BACKGROUNDER

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How to Protect Pension Beneficiaries Without Forcing Taxpayers to Pay for Broken Private-Sector Promises

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Abstract

Multiemployer (union) pension plans have promised more than $600 billion in future benefits that they have failed to set aside, and they continue to make unfunded promises. Moreover, the Pension Benefit Guaranty Corporation (PBGC) that insures private pensions is on track to run out of money in 2025. This could leave a majority of workers who are part of multiemployer pension plans with pennies on the dollar in promised pension benefits. Congress's Joint Select Committee on Solvency of Multiemployer Pension Plans is examining the issue and will provide policy recommendations this fall, including a potential vote by the end of the year. At stake is whether taxpayers will pay for private unions' and employers' broken pension promises through direct taxpayer bailouts or risky and subsidized government loans, or if policymakers will maintain current-law taxpayer protections and focus on making the PBGC solvent, improving plans' funding, minimizing pension losses across beneficiaries, and preventing future reckless promises. Whatever Congress does for private union pensions will set the stage for what it will or will not do for state and local governments' roughly $6 trillion in unfunded pension promises.

Key Points

- A Joint Select Committee of Congress is examining ways to address multiemployer pensions' looming insolvencies and more than $600 billion in unfunded pension promises.
- Unions and liberal lawmakers want to force taxpayers to pay for private unions' and employers' broken promises through direct cash bailouts and subsidized taxpayer loans.
- Bailouts would set a terrible and extremely costly precedent, encourage more broken pension promises, and penalize employers who do not shortchange their workers.
- Policymakers can improve multiemployer pensions and prevent taxpayer bailouts by ensuring that the Pension Benefit Guaranty Corporation remains solvent, requiring adequate pension contributions, and providing means to minimize pension losses.
- Workers deserve more than fickle promises, and if pension plans fail to contribute enough to make good on their promises, they should be forced to terminate.

Once hailed as a bedrock of retirement security, many defined benefit pensions are now on the brink of failure. Some troubled multiemployer (union) pension plans carry debts so large that the government entity tasked with insuring them—the Pension Benefit Guaranty Corporation (PBGC)—will also soon be insolvent. If troubled pension plans do not take action to increase contributions and curb unsustainable benefits, most pensioners will receive significantly less than their companies promised them. If Congress does

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not also take steps to increase the PBGC's revenues and to correct poor regulation of multiemployer pension plans, beneficiaries of failed multiemployer pensions could end up with mere pennies on the dollar in promised and insured benefits.

With an estimated $638 billion in unfunded pension promises and only seven years before multiemployer pension plans begin to collapse and bring down the PBGC's multiemployer program, a congressionally created Joint Select Committee on Solvency of Multiemployer Pension Plans is at work trying to agree to reforms that will minimize pension losses and bolster the multiemployer system.[1] One of the key questions before the joint committee is whether to target solutions for the plans that will run out of money in the next decade or two, or whether to enact reforms that will benefit the entire multiemployer system. While some very large plans will become insolvent relatively soon, those plans represent only about 10 percent of the multiemployer system's unfunded promises.

At stake is who will pay for multiemployer pensions' $638 billion—and growing—unfunded pension promises: the unions and employers who made the promises but failed to set aside the funds to pay them, the workers who thought they would receive far more than it turns out their plans can pay, or taxpayers who had no role in the process and who—by law—have no obligation for private pensions' unfunded promises? This *Backgrounder* provides a brief overview of the troubled multiemployer pension system and classifies the various options that the joint committee is or should be considering.

Background

Across the U.S., about 1,400 multiemployer pension plans cover roughly 10.5 million participants, including both active workers and retirees.[2] Multiemployer, or union, pension plans include workers from many different employers within a particular industry. Trustees, half of whom are union employees and half of whom represent employers, manage multiemployer pension plans.

Historically, many multiemployer pension plans have engaged in practices that caused them to promise more in pension benefits than they set aside to pay. For example: Many plans used unreasonably high discount-rate assumptions that allowed employers to contribute far less than necessary to make good on promised benefits; some plans paid benefits to workers who did not have sufficient work history to earn those benefits; others increased benefits retroactively without funding them; and in limited instances, corruption and reckless investment choices contributed to plan underfunding.[3] The rules for multiemployer pension plans—most of which were enacted at the request of multiemployer-plan providers—give plan trustees enormous discretion in setting benefits and contributions. That discretion, coupled with adverse incentives to make lofty promises and inadequate contributions, made the multiemployer crisis inevitable.

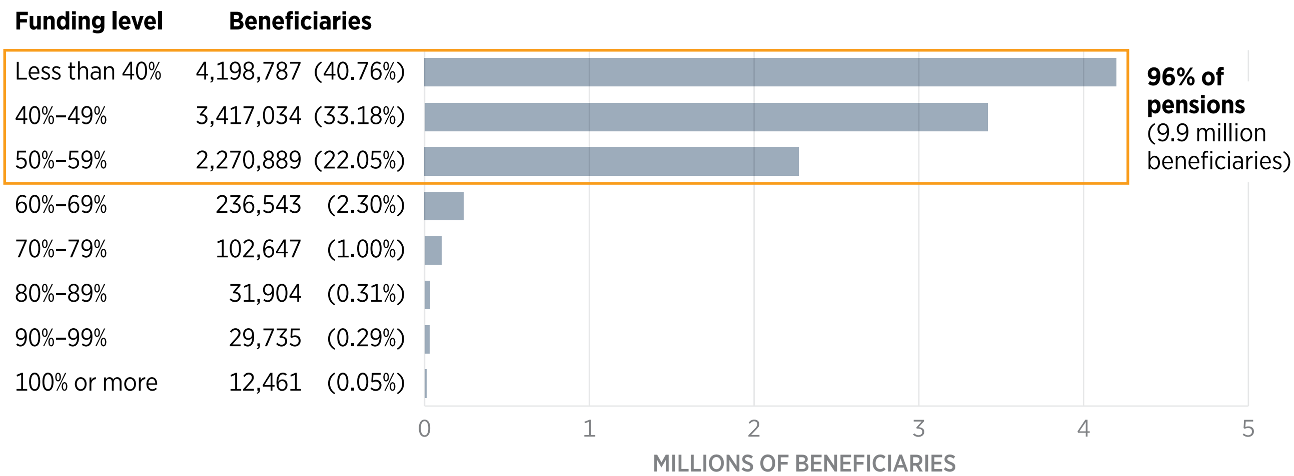
Most multiemployer pension plans are continuing to dig themselves deeper into debt each year.

Poor and reckless pension management practices were possible for decades without consequence because plans had far more workers paying into them than retirees receiving benefits. Failing to align pension contributions with promised benefits,[4] however, is unsustainable. In addition to the inevitable passage of time causing unfunded promises to come due, the multiemployer pension system's looming collapse has hastened, in part, by a decline in employment in many affected industries. If employers' contributions had always aligned with unions' promised benefits, it

1. Pension Benefit Guaranty Corporation, "Data Table Listing," Table M-9, Funding of PBGC-Insured Plans (1980–2015) Multiemployer Program, https://www.pbgc.gov/sites/default/files/2016_pension_data_tables.pdf (accessed August 13, 2018).
2. In 2017, there were 1,374 insured multiemployer plans and 10.565 million insured participants. Ibid., Tables M-5, PBGC-Insured Plan Participants (1980–2017) and M-6, PBGC-Insured Plans (1980–2017).
3. The Central State Teamsters plan came under federal investigation and oversight in the 1970s and 1980s due to infiltration by the mob and corrupt pension trustees that engaged in illegal activities with pension assets. For a detailed history of the Central State Teamsters pension fund, see Government Accountability Office, "Central State Pensions Fund, Investment Policy Decisions and Challenges Facing the Plan," GAO–18–106, *Report to Congressional Requestors*, June 2018, https://www.gao.gov/assets/700/692268.pdf (accessed August 23, 2018).
4. James P. Naughton, "How the Multiemployer Pension System Affects Stakeholders," testimony before the Joint Select Committee on Solvency of Multiemployer Pension Plans, U.S. Congress, July 25, 2018.

CHART 1

96 Percent of Workers' Multiemployer (Union) Pensions Are Less than 60 Percent Funded



SOURCE: Pension Benefit Guaranty Corporation, "Data Table Listing," Table M-13, https://www.pbgc.gov/sites/default/files/2016_pension_data_tables.pdf (accessed August 29, 2018).

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would not matter how many employers went out of business or how few workers remained to contribute to the system, but that was rarely the case. Only if a plan had already accumulated significant pension shortfalls did a drop in employer participation and overall employment accelerate the plan's demise.

The problem with multiemployer pension plans today is so significant that Congress may need to reconsider the viability of multiemployer pension plans as a retirement savings option. Collectively, multiemployer pension plans have promised $638 billion more than they have set aside to pay out. Of the roughly 10.5 million workers with defined benefit pension plans, 96 percent of them are in plans that are less than 60 percent funded, and the situation is only deteriorating.[5]

Most multiemployer pension plans are continuing to dig themselves deeper into debt each year. In order to just stay afloat, plans must not only make their required contributions for active workers, they also have to cover the interest costs on their unfunded liabilities—a "treading water" standard—yet almost no plans are doing that.[6] Financial economist and professor Joshua Rauh testified that only 17 percent of plans contributed enough to avoid sinking further into debt in 2016. He found that multiemployer plans would have to increase contributions by 55 percent to 60 percent just to stay afloat.[7] According to an analysis commissioned by the National Coordinating Committee for Multiemployer Pensions (NCCMP), if multiemployer plans were required to use what financial economists almost unanimously agree to be the appropriate interest rates, they would have to double or triple their contributions to meet their obligations.[8]

The problem is not limited to just a few plans. Rauh's analysis shows that fewer than 10 percent of "green zone" plans—those which are neither criti-

5. Pension Benefit Guaranty Corporation, "Data Table Listing," Table M-13, Plans, Participants, and Funding of PBGC-Insured Plans by Funding Ratio (2015).

6. Plans have to cover interest on their unfunded liabilities because their estimates for contributions assume that all past contributions were sufficient—this is, there is no underfunding. Thus, if a plan has $5 billion in underfunding and assumes a 7.5 percent discount rate, it is not earning the $375 million per year that it assumed and that is crucial to the plan's solvency.

7. Joshua D. Rauh, testimony before the Joint Select Committee on Solvency of Multiemployer Pension Plans, U.S. Congress, July 25, 2018.

8. Michael D. Scott, letter to Members of the Joint Select Committee on Solvency of Multiemployer Pension Plans, National Coordinating Committee for Multiemployer Pension Plans, June 25, 2018. The analysis commissioned by the NCCMP was performed by Horizon Actuarial Services, LLC.

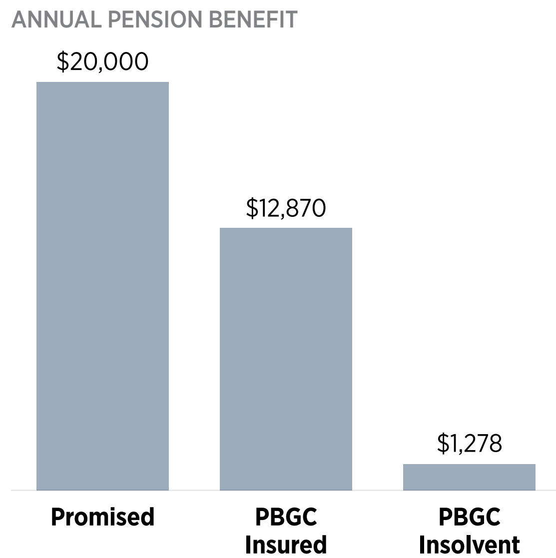
cal nor endangered—are contributing enough to stay afloat, and fewer yet are contributing enough to begin paying down their unfunded liabilities.[9] The study commissioned by the NCCMP found that if plans were required to use appropriate discount rates that matched their benefit promises, only 2 percent—instead of the currently acknowledged 62 percent—would be in the green zone.[10] It is only a matter of time before plans in the green zone enter "critical and declining" status and become insolvent.

What Happens Absent Any Action?

If Congress does nothing to change the rules and regulations that govern multiemployer pension plans, and nothing to reform the PBGC's multiemployer program, many multiemployer pensions will fail, followed shortly thereafter by the collapse of the PBGC's multiemployer program. When a multiemployer pension plan fails, the PBGC makes loans to the plan that are sufficient to pay the PBGC's insured benefits. For many pensioners, this means a sizeable reduction in pension benefits because the maximum benefit available from PBGC's multiemployer program is $12,870 per year for a worker with 30 years of service and $17,160 for a worker with 40 years of service.[11] Although the PBGC technically loans the plans the money to pay insured benefits, the loans are not expected to be repaid. Instead, the PBGC loan structure functions to let the trustees of failed multiemployer pension plans keep their jobs and paychecks.

CHART 2

Pensioners Could Receive Pennies-on-the-Dollar in Promised Benefits



SOURCE: Author's calculations based on sample $20,000 per year pension benefit, the PBGC's insured benefits, and the PBGC's financial outlook (specifically for 2028) as reported in Congressional Budget Office, "Pension Benefit Guaranty Corporation—CBO's April 2018 Baseline," http://www.cbo.gov/sites/default/files/recurringdata/51305-2018-04-pbgc.pdf (accessed August 6, 2018).

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> The PBGC loan structure functions to let the trustees of failed multiemployer pension plans keep their jobs and paychecks.

Reduced PBGC benefits will not be the end of the story for beneficiaries of failed multiemployer pension plans beginning in 2025 and later. That is because the failures of some of the first large multiemployer pension plans will effectively bankrupt the PBGC's multiemployer program, leaving it with far less incoming revenue than required to cover its claims. Since the PBGC is not a taxpayer-financed entity, it will only be able to pay as much in insured benefits as it receives in premium revenues. In 2017,

9. Rauh, testimony before the Joint Select Committee on Solvency of Multiemployer Pension Plans.
10. Scott, letter to Members of the Joint Select Committee on Solvency of Multiemployer Pension Plans. The statistic that only 2 percent of plans would be in the green zone is based on a discount rate equal to the 30-year Treasury bond rate. The NCCMP letter did not argue that this is the appropriate interest rate, but rather emphasized the huge impacts—in terms of increased contributions and reduced solvency measures—that lower discount rate assumptions would have on plans.
11. The maximum PBGC multiemployer benefit for a worker with 10 years is $4,290, the maximum for a worker with 20 years is $8,580, the maximum for a worker with 30 years is $12,870, and the maximum benefit for a worker with 40 years of service is $17,160. Pension Benefit Guaranty Corporation, "Multiemployer Insurance Program Facts," https://www.pbgc.gov/about/factsheets/page/multi-facts (accessed August 6, 2018)

the PBGC paid out $141 million in assistance to failed plans. That figure will rise more than 20-fold to $3.1 billion by 2028.[12] Beginning in 2025, however, when the PBGC runs out of reserves, its benefit payments will be limited to the amount it takes in through premium revenues, about $300 million per year. With PBGC's liabilities rising to over $3 trillion by 2028, this shortfall will mean that beneficiaries of failed plans will receive 10 percent or less of their insured benefits—a maximum of roughly $100 per month for a worker with a 30-year career.[13]

Absent action from Congress to impose more stringent funding rules and discount-rate assumptions for multiemployer pension plans, even relatively well-funded multiemployer plans will likely deteriorate over time and add to the total amount of unfunded multiemployer pension promises. Without sufficient requirements that multiemployer plans set aside the funds necessary to pay their promised benefits, the question is not if plans will fail, but when.

Limited Option for Plans to Delay or Prevent Insolvency

Under the Multiemployer Pension Reform Act (MPRA) of 2014, plan providers can apply to the Treasury Department to reduce their benefit levels. The benefit reductions must provide at least 110 percent of the PBGC's guarantee and they must protect certain, more vulnerable recipients. The proposed changes must result in the plan becoming solvent, and plan participants must vote in favor of the benefit reductions before they can take effect.[14]

This option could have—and was intended to—preserve or prolong the solvency of one of the largest multiemployer pension plan, the Central States Pension Fund. The Central States Teamsters plan includes about 1,400 employers and 385,000 participants. Deeply indebted with over $35 billion in unfunded liabilities, the Central States plan submitted a proposal to the Treasury in September 2015 to reduce benefits in accordance with the Multiemployer Pension Reform Act. The Treasury denied the proposal in May 2016, however, in what was almost certainly a political decision to avoid benefit cuts in an election year. Among the Treasury's stated reasons for not approving Central States' benefit cuts was that the "Treasury has determined that the [7.5 percent] investment return assumptions are not reasonable."[15] That 7.5 percent rate of return, however, is what the Treasury allows Central States and all other multiemployer pension plans to use when determining their benefit and contribution levels.

The passage of time since the Central States pension fund's application and denial led to further deterioration in the plan's funding status, such that it no longer qualifies for benefit reductions because they would not result in the plan's solvency. The section below, "No Taxpayer Bailouts: Ways to Contain Multiemployer Costs Within the Multiemployer System," on reforms for Congress to consider recommends revising these provisions to allow more plans to reduce benefits before becoming insolvent.

In addition to the Central States inability to apply for benefit reductions, two other large and prominent plans—the United Mineworkers of America and the Bakery and Confectionery pensions—are also too insolvent to qualify for benefit reductions.

The Joint Select Committee on Solvency of Multiemployer Pension Plans

With many multiemployer pension funds in critical and declining status (and many more headed in that direction) and not eligible to apply for benefit reductions, Congress has convened a Joint Select Committee on Multiemployer Pension Plans and the PBGC to examine and recommend ways to help improve the solvency of multiemployer plans as well as the PBGC. The committee is to vote on a report and legislative recom-

12. Congressional Budget Office, "Pension Benefit Guaranty Corporation—CBO's April 2018 Baseline," http://www.cbo.gov/sites/default/files/recurringdata/51305-2018-04-pbgc.pdf (accessed August 6, 2018).
13. Ibid. The CBO projects that in 2028, the PBGC's multiemployer program will pay out $310 million in financial assistance and will have $2.813 billion in reduced financial assistance due to the PBGC's multiemployer program insolvency. The $310 million is 9.9 percent of the total $3.123 billion in claims. Based on the PBGC's maximum benefit of $12,870 per year for an individual with a 30-year career in covered employment, the maximum payout would be $1,278 per year, $106 per month.
14. If plan participants reject a benefit reduction plan, but the Treasury determines that the plan is "systemically important" (with more than $1 billion in estimated present-value claims on the PBGC), the Treasury will permit the reductions to occur.
15. U.S. Treasury, letter to Mr. Nyhan, Mr. Ford, and the CSPF Board of Trustees, May 6, 2016, https://www.treasury.gov/services/Responses2/Central%20States%20Notification%20Letter.pdf (accessed August 6, 2018).

mendations by November 30, 2018. If the report and legislative recommendations gain the approval of a majority of both Democrat and Republican Members of the committee, it will receive an expedited process for a Senate vote by the end of 2018.

Committee members have relatively few existing proposals to draw from in creating their own recommendations. The only legislative proposal that exists—the Butch Lewis Act[16]—amounts to an enormous taxpayer bailout that would exacerbate, rather than improve, the root problem.[17] Both the Trump and Obama Administrations proposed closing the PBGC's near-term shortfall through PBGC premium increases, including variable-rate premiums. This should be Congress's first step in addressing the multiemployer pension system because the PBGC is a government entity controlled by Congress, while multiemployer plans are private pensions controlled by unions and employers. PBGC premium increases and variable-rate premiums are crucial to ensuring that the PBGC can provide the insurance it required multiemployer pensions to purchase while also upholding the existing barrier between taxpayers and the PBGC.

The following section provides recommendations to improve the PBGC's multiemployer program and multiemployer pension plans without forcing taxpayers to stand behind more than $600 billion worth of private unions' and employers' broken pension promises.

No Taxpayer Bailouts: Ways to Contain Multiemployer Costs Within the Multiemployer System

The multiemployer pension system's problem is twofold. First is the insolvency of multiemployer pension plans themselves; second is the insolvency of the PBGC's multiemployer program. The two problems go hand-in-hand; less well-funded pension plans lead to more pension failures, which requires greater PBGC assistance and eventually leads to the PBGC's insolvency.

Improving the Solvency of the PBGC's Multiemployer Program. Congress's first priority should be reforming the PBGC so that it can provide its intended level of insured benefits. Although the PBGC is not taxpayer-financed, it is nonetheless a government entity and the government has failed, to date, to run it in a manner that will provide for insured benefits. Congress should:

- **Increase the standard premium at least threefold.** The current multiemployer premium is only $28 per year per participant.[18] This is a tiny amount to pay, especially considering the near-certain failure of many multiemployer pension plans. Single-employer pension plans currently pay a flat-rate premium of $74 per year, plus a variable-rate premium of up to $523 per year—and this is for plans that are, as a whole, significantly better funded than multiemployer plans.[19]

  At $28 per year, the PBGC takes in only about $290 million in annual revenues, but it needs about $3 billion every year to remain solvent. Eliminating the PBGC's multiemployer deficit through premium increases alone would require a roughly 10-fold increase in premiums, to about $290 per year. Even this level of premium would be about half of single-employers' maximum PBGC premium.

  Multiemployer pension plans understandably oppose PBGC premium increases because it adds to their costs. The claim that higher PBGC premiums would bankrupt employers, however, is hard to believe considering what a small percentage PBGC premiums are in comparison to employers' total pension costs. In some cases, employers are paying more than $500 *per week* toward each employee's pension.[20] An increase in the PBGC premium would be marginal compared to employers' contribution costs.

16. Butch Lewis Act of 2017, S. 2147, https://www.congress.gov/115/bills/s2147/BILLS-115s2147is.pdf (accessed August 6, 2018).
17. Rachel Greszler, "'Protecting' Private Union Pensions with Bottomless Bailouts Is a Recipe for Disaster," Heritage Foundation *Issue Brief* No. 4792, December 4, 2017, https://www.heritage.org/sites/default/files/2017-12/IB4792.pdf.
18. Pension Benefit Guaranty Corporation, "Premium Rates," https://www.pbgc.gov/prac/prem/premium-rates (accessed August 7, 2018).
19. Ibid.
20. Aliyah Wong, testimony before the U.S. Congress Joint Select Committee on Solvency of Multiemployer Pension Plans for the hearing, "Employer Perspectives on Multiemployer Pension Plans," June 13, 2018, https://www.uschamber.com/testimony/testimony-employer-perspectives-multiemployer-pension-plans (accessed August 7, 2018).

- **Implement a variable-rate premium.** The PBGC's multiemployer program has a single, flat-rate premium that applies across all pension plans, regardless of whether they are 110 percent funded or only 10 percent funded. The PBGC's single-employer program, on the other hand, includes a 4 percent variable-rate premium that can be as high as $523 per year based on plans' unfunded liabilities.[21] Variable-rate premiums are standard insurance practice because applying higher costs to higher-risk activities reduces the incentive to engage in high-risk activities.

  The Trump Administration's fiscal year (FY) 2019 budget proposed increasing PBGC premiums (including a variable-rate premium and exit premium) by $14 billion[22] over the next 10 years to a level that would keep the PBGC solvent for 20 years.[23] President Barack Obama's FY 2017 budget also included variable-rate premium increases to keep the PBGC solvent for 20 years.[24]

Even after a plan runs out of money and receives PBGC benefits, it is allowed to remain open and continue to accrue liabilities—misleading workers to believe that they will receive full pension benefits.

  Immediately applying an actuarially fair variable-rate premium to all existing unfunded liabilities would lead to unaffordable premiums for insolvent pension plans. Instead, Congress should instruct the PBGC to apply a variable-rate premium to new unfunded liabilities—that is, any growth in unfunded liabilities over time—and to gradually subject a portion of plans' existing unfunded liabilities to the variable rate. A variable-rate premium would improve the solvency of pension plans by encouraging higher funding levels, and it would improve the PBGC's solvency through higher premium income as well as through fewer plan failures.

  For example, a hypothetical plan with 10,000 participants and $4 billion in underfunding currently pays $280,000 per year in PBGC premiums. If Congress were to increase the flat-rate premium to $120 per year and add the same 4 percent variable-rate premium that applies to single employers, the variable-rate premium would apply immediately to any growth in underfunding, and only partially to existing unfunded liabilities. (For example, it could start at 0.50 percent and rise by 0.25 percent each year until it reaches 4.00 percent in 2033.) Now, if the plan's unfunded liabilities grew from $4.0 billion in 2019 to $4.3 billion in 2020 (something that would happen if the plan uses a 7.5 percent discount rate and fully funds its newly accrued benefits), the plan would pay $1.2 million in flat-rate PBGC premiums and $32 million in variable-rate premiums, including $12 million on its growth in unfunded liabilities (4 percent times $0.3 billion) and $20 million on its existing unfunded liabilities (0.5 percent times $4 billion).

- **Instruct the PBGC to take over failed multiemployer plans.** When a single-employer pension plan fails, the PBGC takes over that plan. When a multiemployer pension plan fails, the PBGC makes loans to that plan, allowing the union and employer trustees to continue running the plan and collecting their paychecks from the PBGC. There is no expectation for repayment of these loans, and only once in history has a plan ever repaid a PBGC loan. Instead of allowing failed plans to remain in operation—doing nothing more than receiving PBGC loans and distributing PBGC-insured benefits—the PBGC should take over failed multiemployer plans.

- **Require plan termination for insolvent plans.** Currently, even after a plan runs out of money and

21. Pension Benefit Guaranty Corporation, "Premium Rates."
22. Congressional Budget Office, "Pension Benefit Guaranty Corporation—CBO's Estimate of the President's Fiscal Year 2019 Budget," https://www.cbo.gov/system/files/115th-congress-2017-2018/dataandtechnicalinformation/53907-pbgc.pdf (accessed August 7, 2018).
23. Committee for a Responsible Federal Budget, "Options for the Pension Committee to Consider," June 18, 2018, http://www.crfb.org/blogs/options-pension-committee-consider (accessed August 7, 2018).
24. Ibid.

receives PBGC benefits, it is allowed to remain open and continue to accrue liabilities, implying to workers that they will receive full pension benefits when they will only receive PBGC benefits. Congress should require plans to terminate once they become insolvent so that they cannot make meaningless promises to workers nor further increase the PBGC's obligations. Congress should also consider requiring plans to terminate if they become significantly underfunded, as discussed below in the "Prevent further underfunding with an excise tax or termination" bullet point.

- **Implement a standard PBGC eligibility age.** Currently, plans pay a single, flat-rate premium and yet, some pensioners are eligible to receive PBGC benefits at age 55 while others cannot receive them until age 65. The PBGC should establish a minimum-eligibility age of 65, eventually rising to 67 and indexed to Social Security's eligibility age. This change should not affect anyone currently receiving PBGC benefits, and, through a phased-in implementation, it should only minimally affect those who are at or near their pension eligibility age.

Improving Multiemployer Pension Plan Funding. The federal government has no role in the negotiation of private pension plans, and it has no liability for those broken promises. It does, however, through the 1974 Employee Retirement and Income Security Act (ERISA), regulate private pension plans. Over time, Congress has granted special deference to politically powerful unions through lax regulations and lenient funding requirements under the assumption that unions would act in workers' best interests to fully fund their pension plans. That clearly has not been the case.

Congress can improve multiemployer plan underfunding by requiring plan providers to make adequate contributions to guarantee the benefits they promise, and by providing ways for critically underfunded plans to minimize benefit reductions across participants. Congress should:

- **Require union pension plans to use discount rates that match their liabilities.** A primary reason why multiemployer pensions face such massive unfunded liabilities—with 96 percent of beneficiaries in plans that are less than 60 percent funded—is that they have consistently assumed unreasonable rates of return as a way of reducing required contributions. The higher the discount rate, the lower the contributions and probability that a plan can actually make good on its promises.

  Financial economics clearly specifies that the appropriate discount rate is one that matches the risk of the liabilities. A survey of economic experts at top U.S. research universities asked panelists whether they agreed or disagreed that discounting pension liabilities at high interest rates understated pension costs. Not a single expert disagreed, with 98 percent agreeing or strongly agreeing (2 percent were uncertain). That is because pension benefits are supposed to be effectively riskless, so the appropriate discount rate for them is one that is considered riskless, such as the 30-year Treasury rate.

  Based on plans' own assumptions using a roughly 7.3 percent interest rate, they owe $155 billion more than they have set aside to pay, and are about 75 percent funded. Using a more appropriate 2.3 percent Treasury yield rate, their shortfall is $722 billion and they are less than 40 percent funded. On the other hand, if multiemployer plans assumed 12 percent rates of return, their problems would seem—at least on paper—to disappear.[25] The higher the discount rate, however, the lower the probability that plans can meet their promised obligations.

  Requiring plans to immediately apply appropriate discount-rate assumptions would lead to massive contribution increases that could bankrupt employers. Thus, Congress should require multiemployer plans to scale back their discount-rate assumptions over time, eventually leading to an effectively riskless rate that matches plans' liabilities.

- **Prohibit collective bargaining from setting contribution rates.** Typically, collective bargaining agreements between employers and unions include separate provisions as to workers' pension accruals and employers' pension contributions. The two should be one and the same,

25. Rauh, testimony before the Joint Select Committee on Solvency of Multiemployer Pension Plans.

TABLE 1

Plans Use Excessive Discount-Rate Assumptions to Mask Underfunding

Standard	Discount-Rate Assumption	Underfunding (billions)	Percent Funded
Solvency Liability-Funding Status	2.3%	$722	38%
Current Liability-Funding Status	3.3%	$582	44%
Actuarial Liability-Funding Status	7.3%	$155	74%
Arbitrary Choice	10.0%	n/a	87%
Arbitrary Choice	12.0%	$0	105%

NOTE: Solvency liability is considered the standard metric for measuring guaranteed pension obligations. Actuarial liability is the rate reflected by multiemployer plans' choices of expected discount rates. Current liability is close to the solvency liability, but does not take into account the duration of plans' promised benefits and cash flows.
SOURCE: Joshua D. Rauh, testimony before the Joint Select Committee on Solvency of Multiemployer Pension Plans, U.S. Congress, Senior Fellow and Director of Research, Hoover Institution and Ormond Family Professor of Finance, Stanford University, July 25, 2018.

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but their separate treatment has allowed unions to negotiate higher pension accrual rates while pension plan trustees set inadequate contribution levels, leading to unfunded pension promises. Unions should be able to continue to negotiate pension accrual rates, but the contributions required by employers to fund those accruals should be set by law through standard and reasonable accounting practices.

- **Prevent further underfunding with an excise tax or termination.** Many plans are not only massively underfunded, they are sinking deeper into debt. These plans should not be allowed to continue making promises they cannot keep. If a plan is not covering its current costs plus the interest on its unfunded obligations—in other words, if it is sinking further into debt—it should have to terminate its plan. A termination would end all accruals and lock employers into withdrawal-liability payments. According to testimony from Professor Rauh, only 17 percent of multiemployer plans are treading water as opposed to sinking further into debt.[26] Rauh estimated that meeting the "treading water" requirement under current liability estimates would require plans to increase contributions by at least $42 billion—54 percent—in 2016.[27]

  If an underfunded plan can cover its current costs and interest—in other words, stay afloat—but cannot also cover a portion of its unfunded promises, the plan should have to freeze until it can collect enough contributions to cover the cost of new benefits and begin paying down its unfunded promises. A freeze would mean not adding new employees to the pension plan and not adding any new accruals for existing employees. Instead, employer contributions would go toward paying the plan's unfunded promises. The plan could begin adding new participants and accruals if it became solvent over a 30-year horizon (using a standard discount-rate measure). According to Rauh's testimony, fewer than 2 percent of plans are contributing enough to cover their current costs plus a 30-year repayment of their unfunded liabilities.[28]

  Currently, multiemployer plans can become insolvent and receive PBGC assistance while still promising new benefits. This is not possible for single-employer plans because an excise tax forces them to terminate if they cannot cover their

26. Ibid.
27. Ibid.
28. Ibid.

contributions plus interest on their unfunded liabilities. Congress should reinstate the excise tax, which applied to multiemployers prior to the Pension Protection Act of 2006, so that insolvent multiemployer plans cannot dig themselves deeper into debt. Moreover, in light of plans' massive unfunded liabilities, Congress should also consider gradually applying an excise tax to plans' underfunded liabilities. This would require plans to make payments toward eliminating their unfunded liabilities over something like a 30-year period. An alternative measure to a 30-year amortization payment would be an annual payment to keep the plan solvent—but not pay down its debts—over 30 years.

If plans could not pay the required contributions and underfunding payments, they would likely choose to terminate rather than pay the excise tax. This would result in a mass withdrawal situation whereby employers would be required to continue paying withdrawal liabilities equal to at least as much as their current contributions—but without any new benefits accruing. Those payments would go towards plans' unfunded liabilities and increase the amount of already promised benefits that plans could pay. As discussed below, Congress should consider whether to revise current withdrawal liabilities to make them more stringent.

- **Enhance Multiemployer Pension Reform Act provisions to minimize benefit reductions over time.** The 2014 MPRA ostensibly provides a way for certain plans to reduce benefits to prolong or prevent plan insolvency and thus smooth benefit losses over time. In practice, however, the provisions proved too limited to have a meaningful impact on multiemployer pension plans.

  Congress should make more equitable benefit reductions feasible by: eliminating the requirements that benefit reductions result in solvency and that plan participants vote in favor of benefit reductions; requiring plans to implement benefit reductions if they fail to meet a minimal funding requirement (such as 50 percent funded, or alternatively, covering current costs plus a portion of unfunded obligations); and allowing partial reductions for older and disabled participants currently prohibited from any level of cuts. Reducing benefits to levels at least as great as the amount that the PBGC insures would lead to a more equitable distribution of pension reductions over time so that some workers do not receive less than 10 percent of their promised benefits while others (older workers and retirees) receive 100 percent.

  Congress should also specify that plans can adjust their retirement-eligibility ages to help prolong plan insolvency. Many multiemployer pension plans allow workers to retire and collect pension benefits as early as age 55. Gradually increasing the pension eligibility age would increase the ratio of active to retired workers and could significantly improve plan solvencies. This change could come with less hardship than benefit reductions. Increased life expectancies and improved health outcomes mean that many Americans can work longer than in previous decades.[29] Moreover, doing so can improve financial and physical well-being.[30]

- **Tighten withdrawal-liability rules.** If an employer withdraws from a multiemployer pension plan, he must make "withdrawal liability" payments that are supposed to cover the employer's share of the pension plan's unfunded liabilities. These liabilities are typically calculated using unreasonable interest-rate assumptions that underestimate employers' liabilities and payments. Moreover, annual payments cannot exceed roughly the employer's highest annual contribution over the past 10 years, and payments are only due for 20 years.[31] This cap means that withdrawal liability payments often fall short of employers' true share of unfunded liabilities.

29. Rachel Greszler, "Rescuing Entitlements and Pensions: Study Shows Americans Can Work Longer," Heritage Foundation *Issue Brief* No. 4539, April 6, 2016, https://www.heritage.org/jobs-and-labor/report/rescuing-entitlements-and-pensions-study-shows-americans-can-work-longer.
30. Dave Dhaval, Inas Rashad, and Jasmina Spasojevic, "The Effects of Retirement on Physical and Mental Health Outcomes," NBER *Working Paper* 12123, March 2006, http://www.nber.org/papers/w12123.pdf (accessed August 13, 2018).
31. The exact payment cap equals the employer's highest contribution rate (hourly amount per worker) over the past 10 years times the average contribution base (number of workers) in the three consecutive years with the highest contribution bases over those 10 years.

Congress should revise withdrawal liabilities to require employers who leave a plan to pay an amount that more accurately reflects their share of unfunded pension obligations. This should include requiring plans to use a discount rate equal to somewhere between the 30-year U.S. Treasury bond rate and the corporate bond rate currently required for single-employer plans. It may also include eliminating the 20-year payment cap and revising the formula for calculating unfunded liabilities.

A lower standard discount-rate assumption for withdrawal liabilities would be particularly necessary if Congress required multiemployer plans to meet higher funding standards—something that is necessary to protect promised benefits. Increased funding standards without a lower discount rate on withdrawal liabilities would create an incentive for employers to withdraw from plans because their withdrawal-liability payments based on past contribution rates would be lower than their new and amplified required contributions.

Many employers find themselves stuck in expensive multiemployer pension plans in which they have little or no say because of limited employer representation and often dominant union influence over the plans. Extremely costly withdrawal liabilities—a combination of employers' own unfunded liabilities and those of bankrupt employers' that the multiemployer system spreads across remaining employers—can make it extremely difficult for employers to get out of expensive pension plans and shift into more reasonable defined contribution plans. This is an unfortunate and often unfair consequence of union pension plans, and it is particularly harmful to employers in forced union states that do not allow workers to choose whether they want to join a union. Nevertheless, unaffordable union benefit costs should not be forced onto taxpayers. An option to help employers in this situation may be to reduce their withdrawal liabilities by subtracting from their employee base any workers who opt for a pension buy-out, as that would eliminate any unfunded liability on behalf of those workers.

- **Hold plan trustees accountable.** Trustees of multiemployer pension plans—half of whom represent the union and half of whom represent employers—are responsible for overseeing the financial well-being of pension plans. These plan trustees have almost no accountability, however. Without personal consequences, plan trustees are more likely to agree to inadequate contribution levels and excessive benefit accruals. Moreover, multiemployer plan trustees do not have to meet any qualifications to prove their understanding of, or ability to manage, a pension plan.

Without personal consequences, plan trustees are more likely to agree to inadequate contribution levels and excessive benefit accruals.

In stark contrast to the complete lack of accountability for multiemployer pension trustees, the Obama Administration's Department of Labor implemented extremely stringent fiduciary rules for investment managers of individual 401(k)s and individual retirement accounts (IRAs). These rules were supposed to ensure that investment advisors always act in the best interest of their clients. Clearly, multiemployer pension plan trustees have not always looked out for the best interest of workers and employers. There is no rational basis for allowing potentially unqualified individuals to manage massive union pension plans without any standards or accountability.

Congress should implement standards to ensure that plan trustees meet at least minimal financial management qualifications, and should hold plan trustees personally liable in instances of reckless mismanagement.

- **Provide a buy-out option for workers.** Pension plans' and the PBGC's looming insolvency creates huge uncertainties for workers and retirees who have multiemployer pensions. Instead of waiting to see which benefits—if any—their pension plans or the PBGC will be able to pay, many workers may prefer to take a lump-sum benefit from their pension plan. Pension plans should consider providing lump-sum buy-out options based on workers' accrued benefits and the plan's ability to pay those benefits. That would mean a significantly lower overall benefit than what workers were promised, but it would

TABLE 2

Options for Improving Multiemployer Pension Funding and PBGC Solvency

	NON-BAILOUTS	BAILOUTS
PBGC-DIRECTED	• Increase the standard PBGC multiemployer premium at least threefold • Implement a variable-rate premium • Require the PBGC to take over failed multiemployer plans, as it does for single-employer plans • Require plan termination for insolvent plans • Implement a standard PBGC eligibility age	• Provide direct taxpayer funds to the PBGC's multiemployer program ($68.9 billion–$101 billion) • Increase the PBGC's maximum benefit backed by taxpayers (~$500 million/year)
PLAN-DIRECTED	• Require union pension plans to use discount rates that match their liabilities • Prohibit collective bargaining from setting contribution rates • Prevent further underfunding with an excise tax or termination • Enhance MPRA provisions to minimize benefit reductions over time • Tighten withdrawal-liability rules • Hold plan trustees accountable • Provide a buy-out option for workers • Introduce and enact legislation to prohibit pension bailouts	• Taxpayer-provided cash assistance • Subsidized loans to insolvent plans

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provide workers greater certainty and control over their retirement incomes, instead of having to rely on the choices of plan trustees' and politicians.

- **Introduce and enact legislation to prohibit pension bailouts.** By law, the federal government has no obligation for unfunded pension obligations made by private unions and companies (or state and local governments). Nor do taxpayers have any liability for the PBGC's deficit. Congress should clarify through statute that the federal government will not take on any responsibility for these broken pension promises. Multiemployer pension plans are waiting and hoping for a bailout. If they know that is not an option, they will have to turn to alternative measures, such as reducing accrual rates, increasing contributions, and potentially reducing benefits to maximize the welfare of their workers and retirees.

Representative Brian Babin (R–TX) introduced a bill—the State and Local Pensions Accountability and Security Act—that would prohibit the U.S. Treasury and the Federal Reserve from providing any form of bailout or financial assistance to a state or local pension plan.[32] Congress should enact similar protections to prohibit a federal bailout of private pension plans.

32. State and Local Pensions Accountability and Security Act, https://babin.house.gov/uploadedfiles/state_and_local_pensions_accountability_and_security_act.pdf (accessed August 29, 2018).

Proposals that Would Force Taxpayers to Pay for Broken Private Pension Promises

Even though neither taxpayers nor the government have had any role in the private negotiations of union pension benefits and contributions, beneficiaries of insolvent multiemployer plans and some lawmakers want taxpayers to pay for private unions' and employers' broken promises. They also want taxpayers to cover PBGC shortfalls, despite the fact that the PBGC is explicitly *not* a taxpayer-financed entity. Bailing out multiemployer pension plans would unfairly force current and future taxpayers to pay for the retirement benefits of workers who provided no service to them. It would also encourage more of the same reckless behavior that contributed to existing shortfalls and would set the stage for a multitrillion-dollar bailout of state and local governments' unfunded pension promises.

Putting Taxpayers on the Hook for the PBGC's Multiemployer Program Deficit. Some lawmakers propose that taxpayers pay for the program deficit by:

- **Providing direct taxpayer funds to the PBGC's multiemployer program.** The PBGC is not a taxpayer-financed entity and is limited in its benefit payments to the revenues it collects in premiums. Some proposals floated in Congress would provide direct federal funds to the PBGC, thus removing the barrier between taxpayers and private pension plan promises. The PBGC's 10-year deficit is $68.9 billion[33] and its 20-year deficit, measured by the Congressional Budget Office (CBO) on a fair-value basis that accounts for risks, is $101 billion.[34] Thus, Congress would need to allocate roughly between $70 million and $100 billion to the PBGC to maintain its insured benefits without any other changes. That cost would only cover the liabilities of plans that become insolvent over the next 20 years, however. Many plans are on track to become insolvent beyond the 20-year window, and overall plan insolvencies will likely increase if Congress enacts policies that allow plans to shift their costs onto taxpayers.

  The Butch Lewis Act would provide direct PBGC assistance alongside subsidized loans to insolvent plans.[35] The Central State Teamsters plan projects that it would receive between $20 billion and $25 billion in direct taxpayer-provided assistance from the PBGC (as well as $11 billion to $15 billion in subsidized loans) if the Butch Lewis Act were implemented.[36]

Federal assistance to pension plans could become a multitrillion-dollar cost for taxpayers.

- **Increasing PBGC's maximum benefit backed by taxpayers.** Currently, the PBGC's multiemployer program provides a maximum annual benefit level of $429 per year of service, which is $17,160 for a worker with a 40-year career. Multiemployer pension plans and beneficiaries would like Congress to increase this maximum benefit level so that if their plans fail, they will receive higher benefits. Increasing the maximum benefit without any other reforms to increase PBGC revenues would result in a more rapid deterioration of the PBGC's multiemployer program, as it could increase the PBGCs costs by hundreds of millions per year. Without a costly taxpayer-financed bailout of the PBGC, an increase in the maximum benefit would be irrelevant because without reform, the PBGC will only be able to pay a maximum of about $1,700 per year beginning around 2025.

33. Pension Benefit Guaranty Corporation, "FY 2017 Projections Report," https://www.pbgc.gov/sites/default/files/fy-2017-projections-report.pdf (accessed August 13, 2018). The $68.9 billion figure assumes no future suspensions or partitions. That figure drops to $68.0 billion under a scenario that assumes some additional suspensions and partitions.
34. Wendy Kiska, Jason Levine, and Damien Moore, "Modeling the Costs of the Pension Benefit Guaranty Corporation's Multiemployer Program," Congressional Budget Office *Working Paper* 2017-04, June 2017, https://www.cbo.gov/system/files/115th-congress-2017-2018/workingpaper/52749-pbgcwp.pdf (accessed August 13, 2018).
35. Rachel Greszler, "Why Government Loans to Private Union Pensions Would Be Bailouts—and Could Cost Taxpayers More than Cash Bailouts," Heritage Foundation *Backgrounder* No. 3283, February 5, 2018, https://www.heritage.org/sites/default/files/2018-02/BG3283_0.pdf.
36. The website for the Central State Teamsters stated in January 2018 that the Butch Lewis Act would provide between $11 billion and $15 billion in loans to be repaid after 30 years, and an additional $20 billion to $25 billion in PBGC assistance that would not need to be repaid. Central States Pension Funds, "Pension Crisis: Current Legislative Efforts," https://mycentralstatespension.org/helpful-resources/pension-crisis (accessed January 16, 2018).

Increasing the maximum benefit without making taxpayers pay for it would require plans or plan participants to pay a higher overall premium or an add-on, variable-rate premium contingent on the higher insured benefit level. A rough approximation suggests that already insufficient PBGC premiums would have to increase by 150 percent just to finance a 25 percent increase in the PBGC's maximum guarantee.[37]

Expensive Taxpayer Bailouts of Private, Multiemployer Pension Plans. Some lawmakers propose that taxpayers bail out pension plans through:

- **Taxpayer-provided cash assistance.** One way to prevent cuts to private union pension plans would be to have the government—taxpayers—cover whatever costs the plans cannot afford to pay. Based on the most recent data from 2015, multiemployer pensions have promised $638 billion more in benefits than they can afford to pay. This is the minimum amount that taxpayers can expect to pay over the long run through a purely cash bailout. Since having the federal government stand behind the unfunded promises of private employers and unions would cause plans to increase their unfunded promises (not only multiemployer pension plans, but single-employer and state and local pension plans as well), federal assistance to pension plans could become a multitrillion-dollar cost.

  Direct assistance would zero-out the PBGC's multiemployer program deficit because it would effectively eliminate the PBGC's function by preventing plans from ever becoming insolvent. Absent a change to current law, however, taxpayers bear no liability for the PBGC's deficit.

- **Subsidized loans to insolvent plans.** Instead of providing direct cash to insolvent pension plans, the federal government could provide them with subsidized loans. The idea about loans is that a massive cash infusion would give many otherwise insolvent pension plans money that they could invest and then potentially reduce their unfunded liabilities through high-investment returns. Most loan proposals would charge plans a very low, subsidized interest rate of about 1 percent and not require any repayment of principal for up to 30 years.

  Loans tend to have more appeal to politicians and taxpayers because they are not direct cash bailouts—initially. However, as financial expert Joshua Rauh pointed out, loan proposals for multiemployer pensions "are built on the false logic that plans can get something for free if they receive low-cost subsidized government loans and invest the money in risky assets."[38] Although the CBO has not released an official score of any loan proposals, it did indicate that the cost of the Butch Lewis Act would almost certainly exceed $100 billion. In all likelihood, if the Butch Lewis Act were to pass, it would create the incentive for all multiemployer pension plans to pass their costs onto taxpayers, resulting in a multi-hundred-billion-dollar bailout. (Plans already have an estimated $638 billion in unfunded promises, and the act would encourage plans to make even greater unfunded promises.)

  Although loan proposals contend that plans would repay the loans, there is a good chance that most plans could not repay them, and a considerable chance that plans would rack up additional debt that would qualify for further loans. The simple math behind many plans makes it impossible for them to repay a loan. The United Mine Workers of America (UMWA), for example, has only $55 million in contributions to support $622 million in outgoing pension benefits, and it is closed to new participants, meaning it has no source of new revenues.[39] No bank would ever provide a loan to such

37. Estimates are based on PBGC budget data from the CBO and the author's assumptions that: 25 percent of PBGC beneficiaries receive payments equal to 50 percent of the maximum guarantee for a 30-year work history; 25 percent receive 75 percent of the maximum guarantee; 50 percent receive the maximum guarantee. The analysis includes a 25 percent increase in the PBGC's maximum multiemployer program benefit (from $12,870 to $16,110 for a worker with a 30-year history). This would increase total PBGC claims by an estimated 15 percent and result in about $340 million of increased PBGC payments in 2025, rising to an additional $480 million in 2028.
38. Rauh, testimony before the Joint Select Committee on Solvency of Multiemployer Pension Plans.
39. The full 2015 Form 5500 Filing for the United Mine Workers of America's 1974 Pension Plan is available for download at FreeERISA, http://freeerisa.benefitspro.com (accessed August 7, 2018).

a fund. Giving effectively bankrupt private pension plans one, two, or even three loans would only prolong their inevitable insolvency while increasing the cost for taxpayers.[40]

Recognizing many plans' inability to repay their loans, the Butch Lewis Act stipulates that plans would not have to pay anything other than a low interest rate for 30 years, and then could qualify for alternative repayment plans or loan forgiveness. Such terms obviously increase the risk that loans will not be repaid and that pension plans will continue to increase their unfunded pension obligations at taxpayers' expense.

Giving effectively bankrupt private pension plans one, two, or even three loans, would only prolong their inevitable insolvency while increasing the cost for taxpayers.

Investing for the long-run is a proven strategy to building wealth for retirement. Using taxpayer dollars for relatively short-term speculation is no solution for multiemployer pension plans' unfunded promises. This strategy would justify eliminating the federal government's $21 trillion in total debt by issuing new debt, investing it, and then using the hoped-for investment returns to pay down the initial debt. If the federal government earned 7.3 percent annual returns (the rate assumed by multiemployer plans), doubling the total U.S. debt by issuing another $21 trillion would allow the government to pay off its debt in 17 years. If it increased its debt by $100 trillion and invested that money, the federal government could theoretically be debt free in fewer than five years.[41] Of course, it could also end up with double or triple its original debt if the economy declines and stocks take a nosedive.

This strategy has been tried by state and local governments that have issued pension-obligation bonds. Instead of eliminating pension debts, they have sometimes caused those debts to rise even further. Puerto Rico, for example, issued pension-obligation bonds in 2008, and then the stock market declined about 50 percent over the next year. Those losses caused the pension fund to deteriorate even further, and contributed to the island's current bankruptcy-like situation.[42]

Moreover, government loans to pensions would set a dangerous precedent. If the federal government loans hundreds of billions of dollars to private pension funds, will the federal government also loan trillions of dollars to state and local pension plans in hopes that they, too, can invest their way out of their debts? If so, it would only be fair that the federal government extend speculative loans to individuals who fail to save enough for their own retirement. The federal government should not be in the business of providing loans. Moreover, granting loans to insolvent entities would create a surefire path to the federal government's insolvency as doing so would cause U.S. debt and interest rates on that debt to skyrocket.

- **"Risk funds" for reducing taxpayer costs.** At least one loan proposal would assess fees on multiemployer plans or plan participants.[43] Those fees would go into a risk pool that would serve to reduce the cost to taxpayers by creating a first line of defense against inevitable loan losses. While these funds

40. The "Curing Troubled Multiemployer Pension Plans" proposal would allow plans to receive up to three loans. The April 14, 2017, version of the draft plan can be accessed at http://src.bna.com/qLf (accessed August 7, 2018).
41. These rough estimates assume that the government debt was issued at a 3 percent rate. Realistically, an "investment" scheme to pay off debt would require higher interest rates on the newly issued Treasuries because that debt would be perceived as riskier than the debt of existing Treasury bonds.
42. Rachel Greszler, "Chicago's Risky Bid to Dig Itself Out From Massive Pension Debts," The Daily Signal, August 28, 2018, https://www.dailysignal.com/2018/08/28/chicagos-risky-bid-to-dig-itself-out-from-massive-pension-debts/.
43. The "Curing Troubled Multiemployer Pension Plans" proposal would create a risk pool consisting of a $7 increase in annual PBGC premiums and three separate $24, per year, per employee fees assessed on employers, employees, and unions. This plan has been referred to by policymakers as the UPS Plan, as UPS has lobbied for it. The April 14, 2017, version of the draft plan can be accessed at http://src.bna.com/qLf (accessed August 29, 2018).

would partially mitigate taxpayer losses, they would not prevent them entirely. Unless accompanied by benefit reductions, however, a risk fee on multiemployer plans would take away from plans' abilities to finance other costs such as contributions and PBGC premiums.

A multiemployer fee could be used apart from taxpayer-financed loans to instead shore up multiemployer pensions or the PBGC's multiemployer program. While such a fee would help contain multiemployer pension costs to multiemployer pensions, it would disproportionately penalize the small number of well-funded plans that have backed their promises with adequate contributions.

Conclusion

Owing in large part to perverse incentives and lax regulations, the union and employer representatives of multiemployer pension systems have consistently promised workers far more in pension benefits than they set aside to pay them. The multiemployer pension crisis poses a problem not just for the next 10 years to 20 years, but for at least 50 years. Moreover, it will not only affect a few large multiemployer pension plans, but an overwhelming majority of the roughly 1,400 multiemployer plans. As Congress considers reforms that could include contribution increases, benefit reductions, and taxpayer bailouts, it should focus on the viability and sustainability of the entire multiemployer system and enact reforms that will provide lasting improvement to workers' retirement security.

As noted by the nonpartisan Committee for a Responsible Federal Budget, "any plan to rescue multi-employer plans today [without offsetting the costs] wouldn't really be saving these pensions—it would simply be shifting their costs onto future generations."[44] That is why Congress should not force taxpayers to bail out failed pension plans. If private companies and unions make pension promises to workers, those unions and companies should be responsible for those promises. Workers who need to save for their own retirements should not also have to pay for—through direct cash assistance or risky taxpayer loans—the retirements of private-sector union workers.

If private companies and unions make pension promises to workers, those unions and companies—not taxpayers—should be responsible for those promises.

A combination of increased contributions and reasonable benefit reductions (which could include increasing retirement ages and other factors to minimize cuts to annual benefits) could help avert drastic pension cuts for millions of workers. If not accompanied by significant reforms to the multiemployer system's flawed structure, however, workers would remain highly vulnerable to broken pension promises.

Workers deserve more than fickle promises from their employers and unions. As Congress considers reforms to the multiemployer system, it should establish rules that ensure that multiemployer pensions are no less safe and secure than individual 401(k)s, IRAs, or non-union pensions. If multiemployer pension plans cannot follow the rules that would make them more secure, they should have to terminate.

Finally, Congress should ensure that the PBGC can provide the pension insurance that it has sold to date. This can happen through premium increases and the addition of a variable-rate premium, both of which Congress should consider granting the PBGC the authority to alter, as needed, over time. Going forward, Congress should consider whether workers and taxpayers may be better served by transitioning to—or at least allowing private pension plans to purchase—private pension insurance.

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44. Committee for a Responsible Federal Budget, "Options for the Pension Committee to Consider," June 18, 2018, http://www.crfb.org/blogs/options-pension-committee-consider (accessed August 6, 2018).