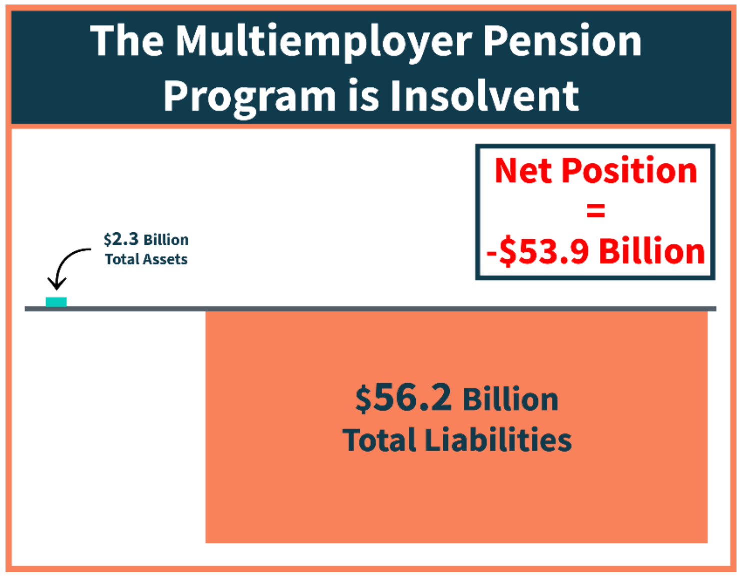
Pension Bailouts

HOUSE BUDGET COMMITTEE

The Pension Benefit Guaranty Corporation (PBGC), a federal agency that insures private-sector defined benefit plans, is in financial distress and its Multiemployer Program is facing insolvency in fiscal year (FY) 2025. To address failed plans and PBGC's impending insolvency Democrats have proposed a bill, the *Butch Lewis Act of 2017*. This proposal would establish a Pension Rehabilitation Administration (PRA) within the Treasury, which would, for the first time ever, use taxpayer dollars to bail out private, multiemployer pensions.



A Pension Bailout Would Bust the Budget. In its FY 2018 annual report, PBGC reported a deficit of $54 billion[1] and over $600 billion in unfunded liabilities.[2] A large portion of these liabilities result from participating employers withdrawing from pension plans or going bankrupt before paying off their pension promises. When either happens, the burden of the unfunded liabilities shifts to the remaining participating employers, and ultimately to the PBGC. The *Butch Lewis Act of 2017* attempts to stabilize these plans by selling government-backed bonds and issuing their profits as long-term loans to bail out plans in critical status. Pension plans would be able to repay these government-guaranteed loans over 30 years at a low interest rate of approximately three percent.[3] Further, interest-only payments would be required for the first 29 years; the balloon payment of the entire principal would be due in year 30. Any loans in default would be repaid by the United States Government.

According to a preliminary and partial analysis by the Congressional Budget Office, implementing the *Butch Lewis Act of 2017* could cost taxpayers over $100 billion over 10 years.[4] Without an offset, this proposal would also add $18 billion to net interest spending over the same period.

A Pension Bailout is Unworkable. Using taxpayer dollars to bail out qualifying plans is an irresponsible budget-busting proposal and the wrong solution to stabilize private sector multiemployer pension plans insured by PBGC. The proposal not only dramatically increases the federal deficit, but it would also fail to address the underlying causes of the pension crisis. For example, participating employers are not required to match benefits promised with contributions adequate to fund them. The *Butch Lewis Act of 2017* would simply perpetuate and potentially exacerbate problems facing the funds by creating an incentive for pension plans to make riskier investments with the certainty that shortfalls will be covered by the government. This is unfair to taxpayers who would bear this huge financial burden and could set a dangerous precedent for other private industries, as well as underfunded public pensions.

Republican Solutions for Saving Pensions. To address the pension crisis, the *Bipartisan Budget Act of 2018* established a Joint Select Committee on Solvency of Multiemployer Pension Plans (JSC) with the goal of proposing recommendations to "significantly improve the solvency of multiemployer pension plans and the Pension Benefit Guaranty Corporation."[5] The House Budget Committee is encouraged that the JSC House Republicans have proposed real solutions to bring solvency to the multiemployer pension plans without placing the burden of an unprecedented Federal Government bailout on taxpayers.

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[1] Pension Benefit Guaranty Corporation, *FY 2018 Annual Report*, https://www.pbgc.gov/sites/default/files/pbgc-annual-report-2018.pdf.
[2] Pension Benefit Guaranty Corporation, "PBGC Pension Data at a Glance", https://www.pbgc.gov/sites/default/files/2016_pension_data_tables.pdf.
[3] House Democrats, "Better Jobs, Better Wages, Better Future, A Better Deal", https://abetterdeal.democraticleader.gov/the-proposals/save-our-pensions/.
[4] Congressional Budget Office, "Preliminary Analysis of S. 2147, the Butch-Lewis Act of 2017", https://www.cbo.gov/system/files?file=2018-07/s2147_HatchLtr.pdf.
[5] Bipartisan Budget Act of 2019, P.L. 115-123.