BACKGROUNDER

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Why Government Loans to Private Union Pensions Would Be Bailouts—and Could Cost Taxpayers More than Cash Bailouts

Rachel Greszler

Abstract

Less than one of every 500 workers and retirees who have union-run pensions belongs to a well-funded pension plan. To avoid workers bearing the consequences of irresponsible pension management by their employer and union trustees, plan advocates and some policymakers want taxpayers to bail out private-sector union pensions through highly subsidized government loans and other forms of assistance. Bailouts are never a good idea. They encourage more of the same type of mismanagement, negligence, and even corruption that contributed to the original problem. Bailing out pensions will only encourage businesses and unions to do more of the same—promising plush future pension benefits while failing to set aside the funds to pay for those promises.

Across the U.S., more than 1,300 multi-employer plans representing 10 million workers have promised $500 billion more in pension benefits than they have set aside to pay.[1] As a whole, these private union pension plans have less than half of the funds they need to pay promised benefits, and nearly 90 percent of multi-employer plans are less than 70 percent funded.[2] Less than one of every 500 workers and retirees who have union-run pensions belongs to a well-funded pension plan.[3]

To avoid workers bearing the consequences of irresponsible pension management by their employer and union trustees, plan advocates and some policymakers want taxpayers to bail out private-sector union pensions through highly subsidized government loans and other forms of assistance.

Key Points

- Approximately 1,300 private pension plans have promised $500 billion more in pensions than they can pay. Now they want a taxpayer bailout under the guise of government loans.
- The Congressional Budget Office has improperly scored loans as low- to no-cost, but they are incredibly risky and could cost taxpayers more than direct cash bailouts.
- Bailouts will encourage more of the same reckless behavior and will disadvantage companies that do the right thing by funding their employees' retirement promises.
- Taxpayers currently have zero liability for private pension promises and zero liability for the government's Pension Benefit Guaranty Corporation program that insures them. Lawmakers should not change that.
- Private, union-run pensions are not too-big-to-fail, but they are too expensive to bail out.
- Claims of economic contagion effects are massively overstated, and they ignore the future contagion effects on taxpayers who would pay for the bailouts.

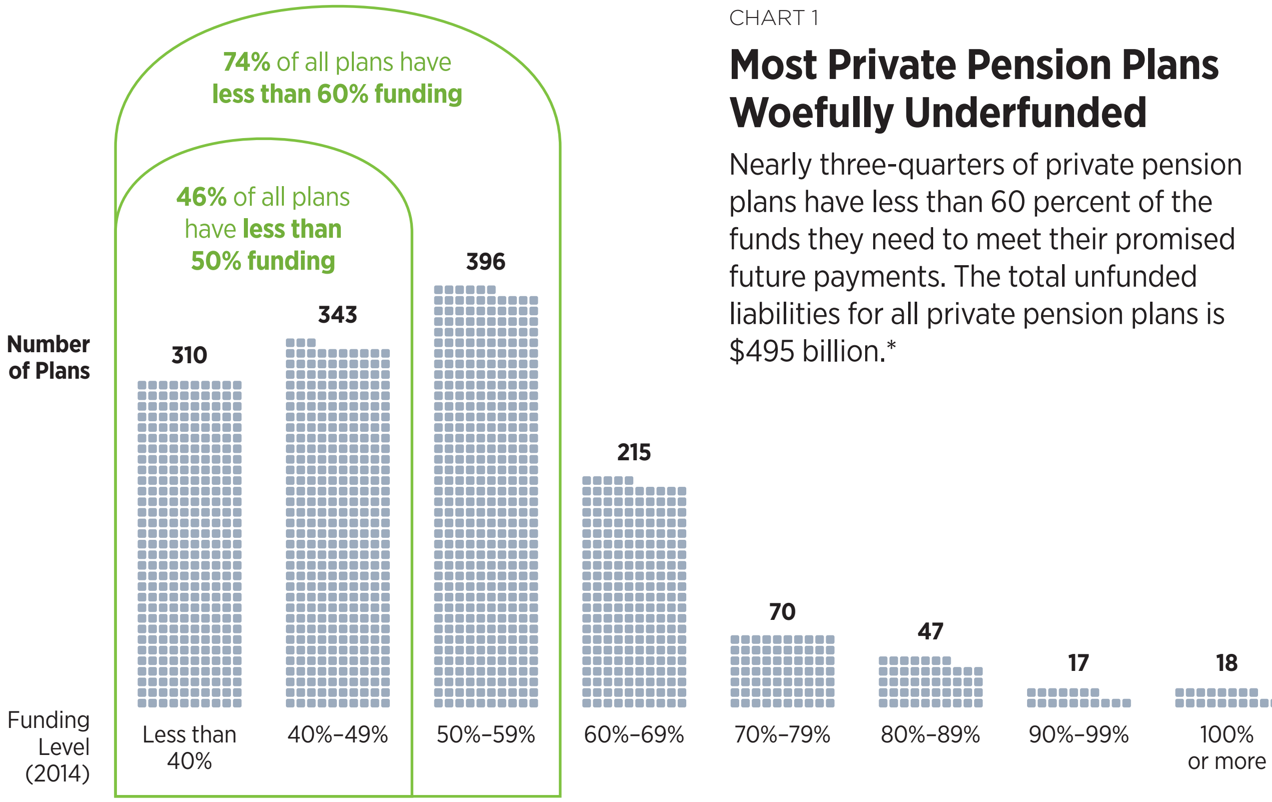
This paper, in its entirety, can be found at **http://report.heritage.org/bg3283**

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

CHART 1

Most Private Pension Plans Woefully Underfunded

Nearly three-quarters of private pension plans have less than 60 percent of the funds they need to meet their promised future payments. The total unfunded liabilities for all private pension plans is $495 billion.*



* The $495 billion figure comes from the most recently available data for 2014. Current unfunded liabilities are almost certainly significantly higher as a result of plans' continued financial deterioration.
SOURCE: Pension Benefit Guaranty Corporation, "Data Table Listing," Tables M–9 and M-13, https://www.pbgc.gov/sites/default/files/2015-pension-data-tables.pdf (accessed January 30, 2018).

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Government loans to insolvent pension plans are bailouts. In this case, the only difference between a cash bailout and a loan is that loans have an unknown cost and carry the risk of future taxpayer losses. Some of the loan programs suggested and proposed for private, union-run pension plans could cost taxpayers more than direct cash bailouts.

Bailouts are never a good idea. They encourage more of the same type of mismanagement, negligence, and even corruption that contributed to the original problem. Bailing out pensions would only encourage businesses and unions to do more of the same, promising plush future pension benefits while failing to set aside the funds to pay for those promises. This would impose massive costs on taxpayers and create a competitive disadvantage for employers who do the right thing by actually funding their employees' retirement benefits.

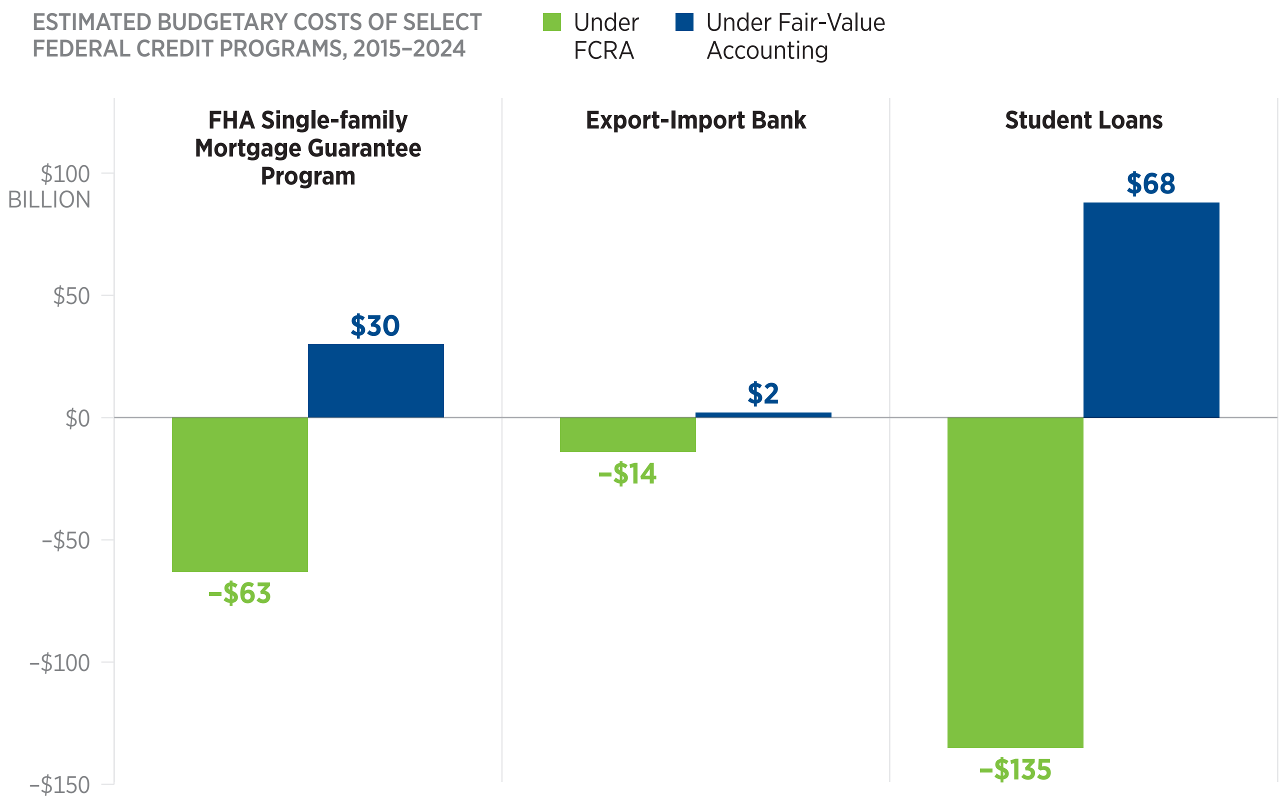
Moreover, loan bailouts will not save taxpayers money by preventing the government's Pension Benefit Guaranty Corporation (PBGC) from becoming insolvent. The PBGC is not a taxpayer-financed entity, so taxpayers bear no liability if it does become insolvent—but loans would not be enough to prevent

1. Pension Benefit Guaranty Corporation, "Data Table Listing: Table M-9: Funding of PBGC-Insured Plans (1980–2014)," https://www.pbgc.gov/sites/default/files/2015-pension-data-tables.pdf (accessed January 17, 2018), and ibid., "Table M-13: Plans, Participants and Funding of PBGC-Insured Plans by Funding Ratio (2014) Multiemployer Program."
2. Ibid., "Table M-13: Plans, Participants and Funding of PBGC-Insured Plans by Funding Ratio (2014) Multiemployer Program."
3. Well-funded, in this case, refers to plans that are 90 percent or more funded. Pension Benefit Guaranty Corporation, "Data Table Listing: Table M-13: Plans, Participants and Funding of PBGC-Insured Plans by Funding Ratio (2014) Multiemployer Program."

CHART 2

CBO Estimates Ignore Risk on Government Loans

Due to the Federal Credit Reform Act (FCRA) of 1990, the Congressional Budget Office scores government loan programs without regard to risk. As shown below, this can result in loans that would appear to save the government money but would actually cost taxpayers billions of dollars under fair-value accounting.



SOURCE: Congressional Budget Office, "Fair-Value Estimates of the Costs of Selected Federal Credit Programs for 2015 to 2014," May 2014, https://www.cbo.gov/publication/45383 (accessed January 16, 2018).

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its insolvency. However, at least one of the loan proposals would *directly* bail out the PBGC, costing taxpayers between $65 billion and $100 billion.

Instead of bailing out union-run, private-sector pensions, the federal government should reform its governance of those plans and make sure that the PBGC is able to provide pension insurance to workers when their plans fail to keep the promises they make. This includes ending preferential treatment of union-run pension plans—requiring them to use reasonable assumptions—and strengthening and enforcing funding rules to ensure plan trustees maintain adequate funding to support promised benefits. It also requires making the PBGC function like an insurance company (charging premiums commensurate with risk) and using its authority to take over failing plans. These reforms would protect pensioners without burdening taxpayers.

Government Loans to Insolvent Pensions Are Bailouts

Government loans are often characterized as subsidies instead of bailouts because, by offering lower interest than available in the market, the loans encourage more of a particular activity—such as attending school or purchasing homes—than would otherwise occur. Subsidies represent the difference between what the market would charge for a loan versus what the government charges. Bailouts, on the other hand, essentially provide get-out-of-jail-free cards to negate the consequences of wrongful, reckless, or irresponsible actions.

Government loans to insolvent pension plans would be bailouts. Some of the plans that would qualify for loans would not qualify for *any* loan in the private market, and many would receive "junk" investment ratings at best. They certainly would not qualify for loans that offer interest-only payments for the first 15 or 30 years. Moreover, the purpose of the proposed government loans to insolvent pension plans is not to encourage more insolvent pension plans (although that is exactly what it would accomplish), but rather to try to remedy the damage done after decades of irresponsible and reckless pension-plan management.

This makes these loans a bailout—not a subsidy—and a particularly risky and costly bailout at that.

Government Loan Scoring Hides True Cost to Taxpayers

Although government loans to insolvent union-run pension plans would likely cost taxpayers hundreds of billions of dollars, the Congressional Budget Office's method for "scoring" such loans massively understates their true costs—and could even imply that government loans would save taxpayers money. This misleading methodology is costly to taxpayers and distorts policymaking decisions.

The actual cost of a government loan includes the loan subsidy—the difference between a market interest rate and what the government charges—as well as the risk of non-payment. Although it would be nearly impossible for most troubled multi-employer pension plans to obtain loans in the private market at virtually any interest rate—and certainly not 30-year, interest-only loans—assume the plans could obtain loans at the market rate for junk bonds of 10 percent,[4] and instead the government provides a 1 percent interest rate. In this case, the subsidy amounts to 9 percent per year.[5]

For a $35 billion loan—roughly the size of the Central State Teamsters' pension plan's unfunded liability—with a 30-year interest-only repayment plan as specified under the Butch Lewis Act, the present-value subsidy cost of the loan would be $72 billion.[6] This subsidy cost represents the very high risk that these insolvent plans will not be able to make their full interest payments or repay their loans. If the pension plan could not repay its loan, and the $35 billion in principal were to be forgiven in 30 years, this would add another $20 billion in real costs, bringing the total cost of the taxpayer bailout to $92 billion.

Even under more limited loan proposals, taxpayer costs could be extremely high. Suppose the above example limited the size of the Teamsters loan to $15 billion, with interest-only payments for the first 15 years (and principal repayments in years 16–30). This would still result in $24 billion in present-value interest subsidy costs from taxpayers, and if the $15 billion principal portion of the loan could not be repaid, that would result in an additional $9.7 billion in present value costs, bringing the total taxpayer bill to $33.7 billion. This is close to the plan's entire current unfunded liability, and yet, even with tens of billions of dollars in taxpayer bailouts, there is a good chance that this pension plan—and many that could receive taxpayer loans—would *still* be insolvent and unable to pay promised benefits.

However, under the Federal Credit Reform Act of 1990 (FCRA), the CBO scores government loan programs without regard to their risk. Instead of evaluating the expected lifetime cost of a loan based on what the market would charge to entities that receive government loans, the FCRA methodology assumes that the discount rate for all government loans is the same

4. The closing value for triple-C-rated (CCC) or junk bonds on January 22, 2018, was 10.128 percent. *Wall Street Journal*, "Market Data Center: Tracking Bond Benchmarks," http://www.wsj.com/mdc/public/page/2_3022-bondbnchmrk.html?mod=topnav_2_3021 (accessed January 23, 2018).
5. The proposed NCCMP plan and the UPS plan specify a 1 percent interest rate for government loans. The Butch Lewis Act does not specify what interest rate the proposed loans would charge.
6. This present discounted value is based on a 10 percent private market rate and a 1 percent subsidized government loan rate. Interest payments are every year for 30 years. The annual subsidy is the difference of these interest rates, which amounts to $3.15 billion each year (in 2018, nominal dollars). Using the CBO's estimated long-run PCE inflation rate of 2.0 percent (based on its June 2017 economic forecasts, https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52801-june2017outlook.pdf (accessed February 1, 2018)), the present discounted value of the sum of those future subsidy payments is $72.0 billion. If the $35 billion in principal for the loan were to be forgiven in the 30th year, that would add another $19.7 billion in real 2018 dollars to the cost of the bailout, bringing its total cost to taxpayers, in real 2018 dollars, to $91.7 billion.

as that of U.S. Treasury bonds, which have virtually zero perceived default risk. Thus, as the CBO explained, "even though the government can fund its loans by issuing Treasury debt and thus does not seem to pay a price for market risk, taxpayers ultimately bear that risk."[7]

The difference in estimated costs between the government's current methodology and fair-value (or market-based) accounting is tremendous. A CBO report showed that under FCRA accounting, three of its current loan programs will *save* the government $212 billion over the 2015–2024 period, while under fair-value accounting, they will *cost* taxpayers $120 billion—a difference of $332 billion between the two scoring methods.[8] The CBO has argued that market-based, fair-value accounting is a more accurate measure of the true costs of government loans versus other federal assistance. It stated in a March 2012 report, "CBO's view is that the cost of risk is a real cost to the government that is relevant for budgeting as well as for cost-benefit analyses."[9]

Policymakers should require the CBO to use fair-value accounting for *all* government loan programs, as it already does for some of its loan programs. Absent a requirement for fair-value accounting to serve as the official score, the CBO should at least have to provide fair-value cost estimates alongside its FCRA cost estimates.

In addition to having to pay the cost of unreasonably low interest payments—and with the federal government's massive deficits, all loan money would have to come from additional debt issuance—taxpayers would also bear a huge risk of outright default on the loans as the insolvent plans have declining revenue sources to repay them. In the end, taxpayers' costs could include highly subsidized interest rates, massive loan defaults, and additional bailouts, such as for the PBGC.

Insolvent Pension Plan Loans Would Be Risky and Insecure

Proponents of taxpayer loans for insolvent private pension plans have suggested that the loans would be safe for taxpayers.[10] That is an ironic claim, considering the insolvent financial status of the plans that would receive loans.

Instead of having to prove they have sufficient income, assets, credit, future income potential, and minimal debt and other liabilities, plans that seek government loans under the Butch Lewis Act would instead have to prove the opposite—that they are in poor and declining financial status. In other words, only plans that could show they would not be able to repay a loan on their own would qualify to receive them. That is the opposite of sound lending policy and virtually guarantees that the plans could not repay the loans without additional taxpayer bailouts.

Other loan proposals that do not involve a direct cash bailout, such as those advocated by a group of employers and unions, including[11] the National Coordinating Committee for Multiemployer Pensions (NCCMP),[12] are based on speculation. By providing extremely low-interest loans, these proposals rely on the plans investing taxpayer funds in the market and earning a higher return than the government's subsidized interest rate. Allowing plans to gamble

7. Congressional Budget Office, "Should Fair-Value Accounting Be Used to Measure the Cost of Federal Credit Programs?" March 5, 2012, https://www.cbo.gov/publication/43035 (accessed January 16, 2018).
8. The three loan programs examined in the report include student loans, the Export–Import Bank, and the Federal Housing Administration's single-family mortgage-guarantee program. Congressional Budget Office, "Fair-Value Estimates of the Costs of Selected Federal Credit Programs for 2015 to 2014," May 2014, https://www.cbo.gov/publication/45383 (accessed January 16, 2018).
9. Congressional Budget Office, "Fair-Value Accounting for Federal Credit Programs," March 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-05-FairValue_Brief.pdf (accessed January 16, 2018).
10. News release, "Joined By Retired Teamsters and Miners, Senate and House Democrats Unveil New 'Better Deal' Proposal To Ensure 1.5 Million Retired Workers Across Country Keep Their Earned Pensions In Full," Office of Cheri Bustos, November 16, 2017, https://bustos.house.gov/joined-retired-teamsters-miners-senate-house-democrats-unveil-new-better-deal-proposal-ensure-1-5-million-retired-workers-across-country-keep-earned-pensions-full/ (accessed January 23, 2018).
11. A group of stakeholders including employers and unions support a plan they have titled, "Curing Troubled Multiemployer Pension Plans." 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 January 23, 2018).
12. National Coordinating Committee for Multiemployer Pensions, "Draft: For Discussion Purposes Only: Emergency Multiemployer Pension Loan Program," November 1, 2017, http://nccmp.org/wp-content/uploads/2017/11/Draft-EMEP-Loan-Program-Nov-1-2017.pdf (accessed January 23, 2018).

with taxpayers' money is neither safe nor secure. If that were a sound strategy, the federal government should be issuing low-interest Treasury bonds and investing the proceeds in the stock market in order to repay its debt.

Plans that have no hope of ever becoming solvent certainly cannot be expected to pay back their loans along with interest. Take the United Mine Workers of America (UMWA) pension plan, for example. In 2015, the UMWA had only $55 million of incoming employer contributions to support $622 million in outgoing pension benefits.[13] It has only one active worker for every 12 retirees and is closed to new participants, so it has a declining revenue stream.[14] There is no way this plan can become solvent or repay any loan.

The only thing a loan would do is delay plan insolvency. Yes, 30-year loans, with interest-only payments for the first 15 or 30 years would allow the UMWA and other troubled union-run pension plans to pay promised benefits without having to increase their contributions. Without further bailouts, however, most plans would not be able to pay back their loans.

The proposed Butch Lewis Act recognizes that many plans would not be able to repay their loans by stipulating that the loans will be eligible for alternative repayment plans or for loan forgiveness. Moreover, most loans would also include a second tier of direct bailouts—such as from the PBGC—that plans would not have to repay. The cost of loans plus additional layers of assistance would likely be in the hundreds of billions of dollars.

Plans Could Potentially Increase Unfunded Liabilities and Receive New Taxpayer Loans

Most troubled multi-employer pension plans not only have massive unfunded pension liabilities, but those unfunded liabilities are growing day by day both because current contributions into the plans typically fall short of promised benefits and because the plans are also not covering the interest costs on their unfunded liabilities.[15] Thus, proposals that address plans' existing unfunded liabilities will not solve all multi-employer pension plans' problems.

Proposals such as the Butch Lewis Act would potentially allow plans to receive multiple loans. Suppose a plan received a $10 billion loan to purchase secure assets—such as annuities or investment-grade assets—in the private market to cover its obligations to date. Even though that loan would essentially wipe its unfunded liabilities to zero (except, of course, its "obligation" to repay the loan), the plan would still be accruing new unfunded liabilities for current workers, and it would have to make interest payments on its $10 billion loan.

Many plans could lack sufficient incoming contributions to pay their annual interest costs, less yet to fund their newly accrued obligations. Instead of limiting plans from accruing any new liabilities, the Butch Lewis Act would provide the plan with direct taxpayer assistance from the PBGC, breaking the firewall that currently exists between the PBGC and taxpayers. Since the Act prohibits plans from cutting benefits by even one penny, insolvent plans could presumably apply for additional loans or direct cash assistance along the way if their initial loan and assistance were not sufficient to cover 100 percent of promised benefits. Such bottomless bailouts would represent moral hazard at its worst—encouraging reckless actions from loosely regulated union-run pension plans—and would be incredibly costly and unfair for taxpayers.

Butch Lewis Act Would Strip Taxpayers of Recoverable Assets

Typically, if an individual or company has a loan that cannot be repaid in full, the lender can recover at least a portion of the money owed by reclaiming assets purchased with the loan. Mortgage compa-

13. The full 2015 Form 5500 Filing for the United Mine Workers of America is available for download at FreeERISA, http://freeerisa.benefitspro.com (accessed November 27, 2017).

14. Ibid.

15. The interest costs on plans' unfunded liabilities are their lost investment returns that the plans have already baked into their assumptions. If a plan has $100 million in unfunded liabilities, it is not earning a return on that $100 million each year, yet its original funding assumptions assumed that it would earn that return. With an assumed discount rate of between 7 percent and 8 percent for most plans, the interest cost on unfunded liabilities adds another $7 million to $8 million in unfunded liabilities per $100 million in underfunding to the plan each year.

16. The Butch Lewis Act of 2017, S. 2147, 115th Congress, 1st Sess., https://www.congress.gov/115/bills/s2147/BILLS-115s2147is.pdf (accessed November 29, 2017).

nies, for example, can foreclose on homes and recover their current value if the homeowner fails to make mortgage payments.

Under the provisions of the Butch Lewis Act, the troubled union-run pension plans would use government loans to purchase what it deems "secure" private-sector assets—such as lifetime annuities and investment-grade assets—for current and future beneficiaries.[16] This would transfer all of the assets of the pension plans to individual beneficiaries, leaving little to nothing in recoverable assets for taxpayers. The only way taxpayers would receive repayment is if the plans increase contributions or reduce costs, but the plans would have zero incentive to do that.

Since most of these troubled pension plans have very little incoming revenue and represent declining industries, it is unlikely that taxpayers will be able to recover much—if anything—of their original loan amounts. The UMWA's $55 million in annual employer contributions would fall short of covering even the annual interest payments on a subsidized government loan, less yet be enough to build up assets to repay the loan.[17] Thus, the true cost of government loans to insolvent pension plans would include massive subsidies as well as extensive loan defaults.

Butch Lewis Act Would Also Bail Out PBGC

In addition to providing loans and loan forgiveness, the Butch Lewis Act would bail out the PBGC's multi-employer program. The PBGC is a government entity that provides mandatory pension insurance to private-sector pension plans. It has two separate programs for single-employer plans and for multi-employer, or union-run, plans. The PBGC's multi-employer plan is massively underfunded and on track to run out of money to pay insured benefits beginning in 2025. According to the PBGC, its multi-employer deficit was $65 billion in 2017.[18] This includes the liabilities for plans that are expected to become insolvent over the next decade. The CBO estimated the PBGC's deficits under fair-value accounting at $101 billion over the next two decades (2017–2026).[19]

The PBGC is not a taxpayer-financed entity, however, so taxpayers are explicitly not on the hook for its unfunded liabilities. The Butch Lewis Act would change that by eliminating the firewall between taxpayers and the PBGC, making taxpayers directly liable for whatever deficits the PBGC's multi-employer program incurs. This would almost certainly increase the PBGC's multi-employer deficits—and taxpayers' costs—because policymakers would have little incentive to reduce the program's current (and growing) deficits by raising premiums or setting policies that penalize plans for acting irresponsibly.

Loans and Other Bailouts Will Not Prevent PBGC Insolvency

Proponents of private, union-run pension plan bailouts argue that they are necessary to prevent plans from becoming insolvent and requiring assistance from the government's PBGC. That is a deceitful argument as it cannot cost more to pay 100 percent of promised pension benefits through a direct bailout than it would cost for the PBGC to provide its smaller insured benefits.

The cost of a PBGC bailout is smaller because when a union-run pension plan becomes insolvent, the PBGC's multi-employer program does not pay 100 percent of promised benefits. Instead, it provides a prorated benefit, capped at $12,870 per pensioner per year. This cap, as well as the PBGC's looming insolvency, provide an incentive for underfunded plans to try to become fully funded by increasing contributions, reducing future benefits, or some combination of the two.

The level of benefit cut for plans that become insolvent and receive PBGC payments varies significantly both across different pension plans and across the workers in those plans. In gener-

17. This assumes the plan receives a $5.6 billion loan at a 1 percent interest rate ($56 million in annual interest payments) to purchase secure assets to cover its currently unfunded promised pension benefits. The $55 million in employer contributions was for 2015. This figure is declining, and benefit payments are rising, as active workers convert to retirees.

18. Pension Benefit Guaranty Corporation, "FY 2017 Annual Report," November 15, 2017, https://www.pbgc.gov/sites/default/files/pbgc-annual-report-2017.pdf (accessed January 27, 2018). The PBGC's $65 billion multi-employer deficit includes the liabilities it will incur for plans that become insolvent over the next 10 years. It does not include liabilities for plans that are projected to become insolvent beyond 2027.

19. Congressional Budget Office, "Options to Improve the Financial Condition of the Pension Benefit Guaranty Corporation," August 2, 2016, https://www.cbo.gov/publication/51536 (accessed January 16, 2018).

al, plans with higher pension benefits experience larger cuts, as do workers with longer work histories. The average UMWA pensioner receives about $530 per month. When the plan becomes insolvent and the PBGC begins paying benefits, the average $530 benefit would fall by 10 percent, or about $50 per month.[20] Workers in other plans that provide higher benefits, such as the Central State Teamsters, would experience larger average benefit cuts of about 50 percent.

In reality, it would cost taxpayers at least five times as much to bail out individual, union-run pension plans as it would to bail out the PBGC's multi-employer program. Moreover, the PBGC is not a taxpayer-financed entity, so absent a PBGC bailout, taxpayers' costs for the PBGC's deficits are zero.

If the government were to require taxpayers to bail out the PBGC beginning in 2025 when it is estimated to become insolvent, it would likely cost taxpayers between $65 billion and upwards of $100 billion.[21]

A direct bailout of multi-employer pension plans before they go to the PBGC could cost upwards of $500 billion—the current amount of unfunded benefits multi-employer plans have promised to date.[22] This amount will likely grow over time, particularly if the federal government provides loans and other direct bailouts to these plans.

Massive Price Tag for Taxpayers

Cumulatively, private, union-run pensions have promised $500 billion beyond what they have set aside to pay.[23] With many of these plans existing in troubled industries that have an ever-declining number of workers paying into them, it is unlikely that any of their financial situations will improve over time. Moreover, legislation such as the Butch Lewis Act would retroactively bail out union-run pension plans that have already become insolvent, providing them not only with fully restored pensions going forward, but also retroactive payment of previously suspended benefits. It would also allow for bailouts of growing unfunded liabilities. Thus, taxpayers could be on the hook for much more than the $500 billion in current unfunded pension liabilities.

Even more costly than a taxpayer bailout of private union pension plans would be the precedent that it would set. Never before in history has the federal government bailed out a private (or state or local) pension plan, but if it bails out private, union-run pension plans, the federal government will signal to state and local government-run pension plans that it may bail them out as well. Across the U.S., state and local pension plans have promised an estimated $6 trillion more than they have set aside to pay—an amount that equals about $50,000 for every household in America.[24]

A federal bailout would shift the costs of these unfunded pension plans from taxpayers in fiscally reckless states and localities to taxpayers in prudent ones. Moreover, a bailout would eliminate any incentive for state and local governments to curb their rising pension costs. If the federal government stands behind broken pension promises, then unions, employers, and state and local governments across the country will have no incentive to keep the promises they make and will instead benefit from shifting a higher portion of workers' compensation into unfunded pension benefits.

Smoke and Mirrors: Contagion Effects

Would-be beneficiaries of a federal bailout have found favor with policymakers by embellishing the alleged "contagion" effects of looming pension plan and PBGC failures. A report from the NCCMP shows

20. Rachel Greszler, "A Coal Miner Bailout Could Set the Stage for a Multi-Trillion-Dollar Taxpayer Bailout. Don't Do It," Fox News, October 5, 2017, http://www.foxnews.com/opinion/2017/10/05/coal-miner-pension-bailout-could-set-stage-for-multi-trillion-dollar-taxpayer-bailout-dont-do-it.html (accessed January 16, 2018).
21. A 2013 Technical Review Panel Report reviewed the PBGC's Pension Insurance Modeling System, which the PBGC uses to produce its estimated deficits. The review panel concluded that certain components of the PBGC's model understate its risks—and therefore its estimated deficits. Olivia S. Mitchell, "Technical Review Panel for the PIMS Model: Final Report," Pension Research Council *Working Paper* No. 2013-07, September 2013, https://www.pbgc.gov/documents/PIMS/WP2013-07-OSM.pdf (accessed January 18, 2018).
22. Pension Benefit Guaranty Corporation, "Table M-9."
23. Ibid.
24. American Legislative Exchange Council, "Unaccountable and Unaffordable: Unfunded Public Pension Liabilities Exceed $6 Trillion," December 2017, https://www.alec.org/app/uploads/2017/12/2017-Unaccountable-and-Unaffordable-FINAL_DEC_WEB.pdf (accessed January 16, 2018).

the estimated economic impact of multi-employer pensions and the multi-employer system on the U.S. economy.[25]

These asserted effects are massively overstated. For starters, they assume that a taxpayer bailout would somehow come out of thin air, having no negative impact on the future taxpayers who would have to give up a portion of their paychecks to cover the pension benefits of previous generations. The entire basis of the multi-employer pension crisis is past decisionmakers pushing unfunded liabilities into the future. That is the exact same thing that issuing new debt to bail out private pensions does—it pushes the costs onto future taxpayers.

Moreover, the alleged contagion effects imply that pension plan failures will bankrupt employers and that workers who lose their jobs as a result will never find new ones or replace any of their incomes. Using these assumptions, $1 billion in lost pension benefits could allegedly result in $50 billion in reduced economic activity, $6 billion in lost tax revenues, and more than 330,000 lost jobs.[26] If the economic value of pensions were this high, the federal government could wipe out its annual deficits and $15 trillion in debt by shelling out hundreds of thousands of dollars to every member of a union-run pension plan in the U.S.[27]

In reality, only about 10 percent of multi-employer pension plans are at risk of benefit cuts within the next decade, and the cuts would not be 100 percent. Moreover, while some companies may go out of business in part because of their unfunded pension liabilities, most individuals who lose jobs in those companies will eventually find other jobs with similar wages. Pension cuts will have economic effects—but not nearly as catastrophic as proponents of a pension bailout would like policymakers to believe.

A dollar is a dollar, and a dollar spent by a pension recipient in the near-term is no more valuable than a dollar spent by a future taxpayer. Government redistribution diminishes—rather than multiplies—the value of a dollar by taking it away from the person who earned it, spending a portion of it on often-wasteful and inefficient government administrative costs, and giving it to someone who had no stake in earning it.

Private, union-run pensions are not too big to fail—but they are too expensive to bail out.

How Policymakers Can Protect Pensions—and Taxpayers

There are many ways that federal policymakers can help protect pensioners without costing taxpayers hundreds of billions—if not trillions—of dollars in bailouts. For starters, policymakers should:

- **Ensure the viability of the PBGC's multi-employer pension program** by increasing the current flat-rate premium; implementing a variable-rate premium; taking over the administration of failed pension plans; and allowing the PBGC some flexibility to adjust premiums as necessary to ensure its solvency.

- **End union pension plans' preferential treatment**, such as the freedom to use whatever interest rate and mortality assumptions they choose as a way to reduce funding levels.

- **Require and enforce proper funding of union-run pension plans.** Plans that fail to meet their funding requirements should be subject to either benefit cuts or PBGC takeover. Additionally, funding rules should be strengthened to require plans to cover not only their current accrued costs, but also the interest on their unfunded liabilities so that those unfunded liabilities do not continue to grow.

25. National Coordinating Committee for Multiemployer Pensions, "Draft: Emergency Multiemployer Pension Loan Program."
26. These ratios are based on an independent study commissioned by a private entity to evaluate the potential economic impact of multi-employer pensions and the multi-employer sector on the U.S. economy. The study looks at the entire multi-employer universe. The reported statistics suggest that a loss of pension benefits would not only cause a reduction in spending by pensioners but would bankrupt the affected companies, resulting in workers losing their jobs without finding new ones and/or without replacing any of their wage income.
27. As of January 16, 2018, the U.S. debt held by the public was $14.8 trillion and the total U.S. debt was $20.5 trillion. TreasuryDirect.gov, "The Debt to the Penny and Who Holds It," January 16, 2018, https://treasurydirect.gov/NP/debt/current (accessed January 18, 2018).

- **Act early to minimize pension losses,** such as by using the PBGC's authority—in a clearly stipulated way—to take over failing pension plans and reduce benefits before they run out of assets.

- **Hold plan trustees liable for sound financial decisions.** Multi-employer plan trustees often lack necessary financial knowledge to manage pension plans, and they face virtually no consequences for recommending, implementing, or signing off on unstable terms. Holding trustees accountable for reasonable decision making (similar to piercing the corporate veil) would help enforce sound funding practices.

- **Explicitly prohibit federal pension bailouts.** By enacting legislation to prevent the federal government from providing any form of financial assistance to pension plans, policymakers can eliminate uncertainty. Without the potential for a federal bailout, troubled pension plans—both private and public—will take actions to reduce pension losses.

Government Loans Are Not The Solution

Policymakers should not be fooled into providing loans to insolvent, private-sector, union-run pension plans. These loans would be risky bailouts that could end up costing taxpayers far more than direct cash bailouts—particularly when considering that some proposals strip taxpayers of the ability to recover loan assets. By definition, loans to insolvent entities are risky and insecure and would include significant default costs.

Government loans would also not save taxpayers any money by preventing the PBGC's insolvency. The PBGC is not a taxpayer-financed entity, so taxpayers have no liability for its deficits. Even if taxpayers were liable, bailing out the PBGC would cost only a fraction of what it would cost to bail out 100 percent of private unions' broken pension promises. Moreover, what the Butch Lewis Act proposal fails to expound is that it also includes a taxpayer bailout of the PBGC. That component is crucial to the proposal because the only way that many insolvent pension plans could repay taxpayer loans is if they also receive direct cash assistance—not to be repaid—from the PBGC or some other bailout fund.[28]

Finally, government loans to pensions would set a horrible and costly precedent, encourage pension plans to increase their unfunded liabilities and shift the cost to taxpayers, and penalize companies that do the right thing by fully funding their workers' retirement benefits. A private-sector, union-run pension bailout would cost taxpayers upwards of $500 billion and set the precedent for a $6 *trillion* taxpayer bailout of troubled state and local pension plans. Policymakers must recognize the true cost of a private pension bailout, including the hidden costs not contained in an official CBO score, the perverse incentives it will create, the overblown and misleading "contagion effects," and the extremely costly precedent that a pension bailout would set.

*—**Rachel Greszler** is Research Fellow in Economics, Budget, and Entitlements in the Thomas A. Roe Center for Economic Policy Studies, of the Institute for Economic Freedom, at The Heritage Foundation.*

28. The website for the Central State Teamsters states 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. See Central States Pension Funds, "Pension Crisis: Current Legislative Efforts," https://mycentralstatespension.org/helpful-resources/pension-crisis (accessed January 16, 2018).