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COVID rescue package gives failing pension plans a $86 billion bailout, stirring hope and criticisms

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In the shadow of stimulus checks and extra unemployment aid, Democratic lawmakers extended another hand in the $1.9 trillion pandemic relief package: a long-sought bailout for failing private pension plans.

The union-backed provision, touted for years by Representative Richard E. Neal, was signed into law Thursday by President Biden as part of the larger COVID-19 stimulus bill. It promises to set aside an estimated $86 billion — and some say possibly far more — in grants for multi-employer retirement plans that were careening toward insolvency even before the pandemic hit.

Without it, the multi-employer pension plans for more than a million truckers, warehouse and retail workers, and others could collapse, unions and congressional Democrats warn. In New England alone, the measure could help preserve the promised retirements of at least 70,000 Teamster members, union officials said.

"That's what the term rescue means," Neal, the chairman of House Ways & Means committee, said in an interview Friday. "We couldn't take the chance of these plans collapsing and taking down other pension plans across the country."

The inclusion of the pension bailout, after unsuccessful efforts to pass it in 2019, has fed into criticisms that the relief package — which Congress approved along nearly partisan lines — is stuffed full of giveaways to Democratic allies that are unrelated to COVID-19. Critics say that is particularly clear with the pension rescue since the plans' underlying problems were not specifically brought on by the pandemic.

The language passed by Congress does not require that the plans pay back the taxpayer-funded grants, unlike previous iterations, and economists say it lacks guardrails that could address the problems that got the plans into trouble in the first place or efforts.

"In terms of the fixes, there are none [in the bill]. It's taking the easiest approach: Let's have the federal government pay for it," said Jim Naughton, a professor of business administration at University of Virginia.

The Congressional Budget Office estimates 185 plans would receive grants under the measure, effectively ensuring the most dire plans can cover their retirees' benefits for the next three decades. Many of those pensions can range between $15,000 and $25,000, providing relatively small but still critical lifelines for hundreds of thousands of former blue-collar workers, Naughton said.

But by prioritizing those most "critical" plans, it ensures those who score the biggest windfall are plans that "were the worst managed, the ones who made the stupidest investment decisions, [or] the ones who collected the least contributions," Naughton said.

"People are relying on these pensions. To do nothing is not really a palatable option," he said. "But it is absolutely a transfer from taxpayers to pension plans."

Conversely, as part of the total $1.9 trillion package, state and local governments are barred from pouring their share of $350 billion in aid into their own public pension funds.

According to the Pension Benefit Guaranty Corporation's fiscal 2019 projections, of the roughly 1,400 insured multi-employer plans, 124 plans have reported that they will run out of money within 20 years. And the collective unfunded liability of all the multi-employer plans stood at $673 billion as of 2017.

Two of the largest funds are Central States Teamsters, which has $26 billion in unfunded liability, and New England Teamsters, with $5.5 billion in underfunded liability, according to a 2019 report released by Cheiron Inc., a pension consulting firm. (The Central States fund also covers several hundred workers and retirees from Massachusetts.)

Multi-employer plans exist typically in such industries as trucking, manufacturing, construction, and beverages, where many companies have gone under. That means for some plans, the number of retirees now outnumber the active workers actually paying into the funds.

And because the plans were created by employers who pooled resources to offer pensions, it also suffers from Neal described as the "last man standing" rule, meaning as employers pull out of the plan, others absorb the so-called orphaned members.

Addressing these problems, however, may be impossible without some government funds, said Alicia Munnell, director of the Center for Retirement Research at Boston College. In addition, the government itself has added to the plans' problems "by not requiring adequate payments from withdrawing employers," she wrote in a forthcoming blog post shared with the Globe.

Neal, a Springfield Democrat, argued that it wasn't corruption or malfeasance that drove many of the plans to the brink of collapse, and, in some cases, deregulation hastened their spiral, he said.

"It was based on sheer factors of the marketplace," he said. "These [retirees] did nothing wrong. Military veterans, a lot of them, and many people who were well into their 70s were being told they would lose their pensions."

The estimated $86 billion in aid, he said "really buys a lot of time to sort this out," though he acknowledged some may not ultimately dig out of their financial holes. "There will be those who will be universally troubled," he said.

The House had passed a version of the provision in 2019 to create a new agency to issue government bonds that would finance loans to underfunded multi-employer pension plans. But it languished in the Senate. Neal floated the idea of attaching it to the United States-Mexico-Canada trade deal negotiated by the Trump administration, but that faltered in the face of the opposition of the Trump White House and House Republicans.

“The difference [now] is Joe Biden is president and the Democrats won both Georgia seats,” giving the party control of the Senate, said John Murphy, a Teamsters international vice president who has grappled with the issue of pension underfunding since 2014.

He said the pandemic indeed had an impact on the unions pensions, as layoffs of thousands of workers allowed employers to halt their contributions to the plans, further destabilizing them. The new aid, he said, sends a signal to workers and retirees that “the government is going to make up for those economic losses to guarantee these retirees and their spouses and future retirees are going to get what they were promised.”

The $86 billion price tag for doing so — an estimate provided by the CBO — could also change. Aharon Friedman, a former longtime senior tax counsel for the House Ways and Means Committee, said he believes it’s likely to creep higher should other plans in the future qualify for aid. Naughton, the University of Virginia professor, said he wouldn’t be surprised if the costs end up doubling estimates.

The CBO itself said in one of its simulations, as many as 336 plans received a grant.

“You set up a precedent that we’re providing a bailout where employers aren’t responsible, not even for a penny,” Friedman said. On top of that, the plans could then be incentivized to be aggressive, if not irresponsible, in how they invest their money, he said. “We’re going to take a lot of risks. And if things don’t improve, the government will send us a check.”

Jeffrey Miron — an economist at Harvard University and the Cato Institute, a libertarian think-tank based in Washington — said he’s concerned the aid “will be just one step in a series of acts that will cover these losses.”

“It sets the stage for future bailouts,” he said.