Democrats defend $86 billion bailout for union pensions in COVID relief bill

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The $1.9 trillion American Rescue Plan contains many priorities of Democratic lawmakers that are not directly linked to coronavirus relief, including a provision that has already drawn heated criticism from Republicans for bailing out a small number of union pension plans that were hemorrhaging money long before the pandemic struck.

The House is set to vote on the final version of the bill this week after it cleared the Senate Saturday. It will deliver another round of stimulus checks, extend enhanced unemployment benefits, provide aid for state and local governments and schools, and fund vaccine distribution, but it will also dedicate about $86 billion to saving endangered multiemployer pension plans.

There are about 1,400 collectively-bargained, defined-benefit multiemployer pension plans in the U.S. covering 10 million workers, and about one-tenth of those plans are rapidly running out of money. The federal Pension Benefit Guaranty Corporation is intended to provide a backstop if plans fall short, but its multiemployer fund is on track for insolvency by 2027.

Companies contribute to these funds on behalf of workers through payments negotiated with unions, but they are less heavily regulated than single-employer plans, in part because they were presumed to be safer. For a number of reasons, that has turned out not to be the case.

“This is not a new problem...,” said James Naughton, a former actuary and an associate professor at the University of Virginia’s Darden School of Business. “This is a problem that’s been around for at least 15 years.”

The pension provision in the American Rescue Plan would fund full benefits for about 185 union pension plans for 30 years, affecting roughly 1.3 million retirees who could otherwise be left without income if their plans collapse. In addition, retirees whose payments were reduced under the 2014 Multiemployer Pension Reform Act would have benefits restored. Democrats project the money would stabilize the Pension Benefit Guaranty Corporation’s multiemployer pension program for 20 years.

“This is just naked redistribution for the constituents of Democratic politicians,” said Jeff Miron, director of economic studies at the Cato Institute.

Democrats stressed many of the affected workers are in industries that have been on the front lines during the pandemic like grocery stores, food preparation, construction, and delivery services. Sen. Sherrod Brown, D-Ohio, who has been fighting for a fix for struggling multiemployer pensions for years, framed the passage of the provision as a victory for more than a million retirees, including 100,000 of his constituents.

"They spent years working on assembly lines, bagging groceries, driving trucks, working hard to keep our economy going. And money came out of every single one of their paychecks to earn these pensions... And for years now they have been living in fear of drastic cuts," Brown said on the Senate floor last week.

Previous efforts to rescue sinking union pension plans have stalled in the Senate, and even though Democrats now control both chambers of Congress, a standalone measure might not have been able to secure the 60 votes needed to overcome a filibuster. Tying it to the relief package allowed Democrats to advance it through reconciliation with a simple majority.

Proponents of the pension bailout say retirees worked for decades, often in physically demanding jobs, and paid into pension funds with the expectation that they would eventually receive certain benefits. They argue it is not the workers' fault that the pension plans do not have the money to pay them.

According to economists, there are several factors fueling the multiemployer pension crisis, including significant drops in the number of businesses participating in such plans and the size of the unionized workforce. Among those who remain in the plans, employers and unions have often agreed on contributions that were too small based on expectations of returns on investments that never materialized.

"In principle, it sounds like a good system," Naughton said. "Where it fell apart is what the unions collected from the employers was insufficient compared to what was being promised."

As more workers retire, the underfunding of the pensions has increased pressure to make aggressive investments. Those risky investments sometimes result in heavy losses, and collective bargaining contracts make it difficult to collect higher contributions to compensate.

"It's human nature," Miron said. "The company wants to attract good workers by promising them benefits but it doesn't want to make the contributions There's all this pretend on both sides that the assets will earn a high rate of return."

The $86 billion for pensions has been largely overshadowed by the bigger-ticket items in the bill, but that could change as the messaging war over the legislation escalates. GOP lawmakers have sought to dent broad bipartisan public support for the American Rescue Plan by highlighting what they say is wasteful or irrelevant spending in the nearly $2 trillion package, including the pension bailout.

Dedicating tens of billions of taxpayer dollars to shoring up union retirement plans that were already ailing for years for reasons entirely unrelated to the coronavirus might become a political liability if public concerns grow about the overall price tag of Biden's agenda. Republicans have long maintained Democrats are unduly beholden to unions, and this could reinforce those concerns.

"There's more money in this to bail out union pension funds than all the money combined for vaccine distribution and testing," Sen. Bill Hagerty, R-Tenn., told reporters last week.

According to the Center for Responsive Politics, President Joe Biden's 2020 campaign received $1.3 million in direct contributions from labor and union PACs, and union groups donated millions more to pro-Biden PAC Priorities USA. In total, labor groups contributed $70.7 million to Democrats and $166.4 million to outside groups.

However, Democrats like Brown, who represent many blue-collar workers and retirees, are openly defending the measure. Among the states with the largest numbers of participants in multiemployer pension plans who might benefit are key swing states like Pennsylvania, Ohio, and Michigan.

"Millions of hardworking union members are at risk of losing their hard-earned pensions because of the pandemic," Rep. Haley Stevens, D-Mich., tweeted Monday. "I'm glad to see that pension relief was included in the #AmericanRescueAct."

Some Republicans have also recognized a need for federal intervention to assist multiemployer pension plans. Bipartisan solutions have been debated in the past, but those approaches have typically involved taxpayer-backed loans, reduced benefits, or commitments to structural reforms, rather than a straight-up bailout.

The bill places restrictions on investments affected pension plans can make, but Republicans warned letting them off the hook for their liabilities could only lead them to take more risks in the future. Sen. Chuck Grassley, R-Iowa, reintroduced legislation last week aimed at reforming the Pension Benefit Guarantee Corporation, and he moved unsuccessfully to amend the American Rescue Plan with similar measures.

"This bailout is not coupled with any reforms to ensure the long-term sustainability of the multiemployer pension system. So, it's just a blank check, with no measures to hold mismanaged plans accountable... Unless meaningful reforms are included, the precedent will be set that the taxpayer, not the PBGC, is the ultimate guarantor of private-employer pension promises," Grassley said in a statement.

Unions and labor advocates applauded the passage of the pension funding, as did some employers. They rejected the argument that propping up troubled pensions was unrelated to the coronavirus pandemic.

"The legislation contains provisions designed to help protect some plans that are currently healthy from sliding into insolvency because of the unprecedented economic shutdown, and also goes a long way toward stabilizing the Pension Benefit Guaranty Corporation and the multiemployer pension system overall," the AFL-CIO's Retirement Security Working Group said in a statement.

The U.S. Chamber of Commerce and dozens of companies that employ essential workers sent a letter to Senate leaders last week urging them to approve the funds to salvage flailing multiemployer pensions. They acknowledged the challenges these pension plans face predated the pandemic, but they argued the economic impact of the virus exacerbated those problems.

"The economic drag on plans, employers, and workers is profound," the letter stated. "If Congress' priority is to strengthen the confidence of retirees, small businesses, and essential workers during these uncertain times, then it should pass multiemployer relief without further delay. To do otherwise would make the solution more expensive and more complex."

The National Coordinating Committee for Multiemployer Plans, a trade group, estimated in 2019 that allowing troubled plans to teeter into insolvency would cost the federal government $32 billion to $103 billion in tax revenue over 10 years. Factoring in added spending for social safety net programs to provide retirees with health care, food, and housing assistance, the total 10-year cost of inaction could be $170 billion to $240 billion.

The bailout of multiemployer pensions is one of several pension-related provisions in the bill. It would also double the period of time granted to single-employer plans to make up losses and freeze cost-of-living adjustments for some plans starting in 2030.

According to the Congressional Research Service, these changes could benefit companies facing financial difficulties because employers would be required to contribute less to pensions in the short term, and it would boost tax revenue at a time when the federal government is taking on record levels of debt. There are risks for retirees, though.

“When employers contribute less to their pension plans, their taxable income increases, which results in increased Treasury revenue. Funding relief can also result in plans being less well-funded,” a CRS report released last month stated.

When the House was considering legislation that would offer 30-year federal loans to endangered multiemployer pension plans in 2019, the Congressional Budget Office predicted that most plans that received loans would wind up at risk of insolvency again soon after the loan period ended. Experts foresee similar problems here once federal assistance dries up in 2051.

As long as the prospect of assistance from taxpayers is on the table, Naughton expects these plans will have little reason to rethink their contribution levels or investment strategies. Reforms that force multiemployer pension plans to invest more conservatively could potentially address that dynamic.

“The most important step is making sure it doesn’t happen again... Every plan has been managed in a way that they’re taking too much risk, and there’s really no way they’re going to voluntarily reduce the amount of risk they’re taking,” Naughton said.

Democrats say this measure buys Congress time to work out a long-term solution and saves over a million retirees from suffering while they do. However, critics fear lawmakers will just keep pouring money into pensions instead of fixing the system.

“It’s hard to think of a way to avoid this situation because it’s frequently in politicians' interest to bail out people who have taken on too much risk,” Miron said.