The Union Pension Bailout

A scheme for taxpayers to cover mismanaged multi-employer plans.

Feeling tapped out after stimulus, ObamaCare and everything else? Senator Bob Casey has one more deal for you. If the Pennsylvania Democrat gets his way, U.S. taxpayers will also pick up the astonishing tab for poorly managed union pension plans.

Mr. Casey is gathering support for his curiously named "Create Jobs and Save Benefits Act," a bailout for union-run retirement plans. Similar to House legislation from North Dakota Democrat Earl Pomeroy and Ohio Republican Patrick Tiberi, the bill would transfer tens of billions of dollars worth of retiree liabilities to the Pension Benefit Guaranty Corporation, i.e., to taxpayers.

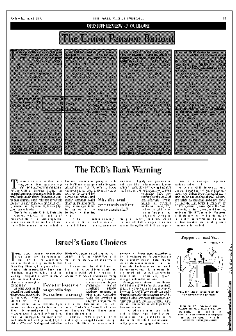
At issue are multi-employer pension plans, in which companies across an industry pay into a single pension pool. The plans are predominately run by unions and for years have distinguished themselves by poor management. The Labor Department in 2008 listed 230 multi-employer plans that were either endangered (less than 80% funded), or critical (less than 65% funded), or that had applied to government for funding relief. By 2009 that number had soared to 640.

The financial crash is partly to blame, but even before 2006 only about 6% of multi-employer plans were fully funded, compared to about 31% of single-employer plans. The real problem is that multi-employer plans have become a sort of pension Ponzi scheme.

Unions love multi-employer plans because they let workers keep their retirement benefits even if they switch jobs to another participating company. This encourages lifelong union membership. Unions are less enthusiastic about paying the bills. The negotiating priority of union leaders is to get hefty wage increases and benefits for *current* workers, leaving the scraps to the pensions of retirees who no longer vote in union elections.

When a company in an industry goes out of business, meanwhile, the remaining firms are still on the hook for all costs of the multi-employer plan. This explains why the trucking industry is backing Mr. Casey's bill, and why Mr. Casey announced his legislation at a Pennsylvania facility of YRC Worldwide, a Kansas trucking outfit. Someone has to pay for years of the industry agreeing to Teamster demands.

Mr. Casey's bill would cordon off "orphaned" pensions—those for which an employer has stopped contributing or withdrawn from a multi-employer fund—and put them into a separate account. Surviving companies would pay benefits to these orphans for five years, after which they'd get kicked to the PBGC, which would shoulder the benefits until the last retiree or beneficiary dies. The remaining multi-employer plan would be back in the black, free to start the negative-feedback loop of underpay-



ments and overpromises again.

All of this is a raw deal for union pensioners who worked a lifetime in expectation of certain benefits. The PBGC's current maximum payment to any plan participant is $12,800 a year. Mr. Casey's bill raises that to $21,000 year, still only a fraction of existing pension promises.

Not that the PBGC has the cash to pay more. The agency's deficit was $21 billion as of last September, and it is expected to rise to an estimated $34 billion by 2019. Mr. Casey is claiming his multi-employer-bailout scheme will cost a mere $8 billion, but Moody's estimated last year that multi-employer plans were $165 billion underfunded.

The tab is likely to be much higher given the moral hazard Mr. Casey would create. As Hudson Institute economist Diana Furchtgott-Roth notes, the bill creates "a vicious circle. Once PGBC took over some plans, other employers would want to declare bankruptcy, unload plans on the PGBC, and reorganize under another name. The incentives to do this would be enormous."

In 2006 Congress passed the Pension Protection Act to prod companies and unions to shape up their pension plans, whether by lowering benefits, increasing contributions from employers and workers, or even raising retirement ages. The fact that many unions and companies have refused to use these tools does not make their mistake the obligation of U.S. taxpayers. If unions really cared about protecting retirees, they'd ditch defined-benefit plans and adopt 401(k) plans that give workers control over their retirement assets.

Union chiefs prefer the power that comes with managing huge pension investments—even if they're failing. They are now counting on Mr. Casey to preserve their power by making taxpayers pick up the tab for years of pension mismanagement. With the union priority of "card check" stalled, word is that the Casey bailout is Big Labor's consolation prize. Taxpayers should let Congress know they don't want to pay.