Retirement News Highlights

Monday, April 24, 2023

A Case Study in Pension Bailouts

Congress bailed out multi-employer plans. Cue more risk-taking.

By The Editorial Board
The Wall Street Journal
April 23, 2023

The 2021 American Rescue Plan Act included $94 billion for underwater union multi-employer pension plans with no strings attached. What do you know? A new study finds that Congress's pension bailout has resulted in riskier investing and benefit increases—that is, moral hazard.

Researchers at the State University of New York at Buffalo, the University of Washington and Indiana University examined how Congress's bailout of multi-employer pensions has affected management. Employers with a common union such as the Teamsters offer these collective plans, which are collectively bargained and jointly administered by unions and management.

But high labor costs have driven many unionized companies into bankruptcy, and some employers have exited the plans to avoid picking up more of the costs for generous benefits. The Democrats' March 2021 Covid spending bill authorized the Pension Benefit Guaranty Corp. to make lump-sum payments to keep some 200 sick multi-employer plans solvent through 2051.

The researchers compared the management of multi-employer pensions to single-employer plans that didn't benefit from the bailout. They find that multi-employer plans increased their exposure to such riskier assets as private equity by $32.5 billion, which they say is consistent with plan sponsors expecting that Congress's bailout protects their "assets from downside risk."

They also found that multi-employer plans were more likely to increase worker benefits after the law passed. Multi-employer plans also reduced their liability discount rates, thereby increasing the book value of their liabilities and making it more likely that they'd qualify for government assistance.

"These findings collectively suggest an [American Rescue Plan]-induced firestorm of moral hazard, where sponsors and union leaders engaged in numerous risk-shifting and self-serving behaviors," the study says. That means Congress down the road may wind up spending more to prop up insolvent union plans as well as some that were better funded.

While the law was "intended as a near-term plug and does not fix the long-term insolvency" for these plans, the study notes that multi-employer plans faced a $757 billion shortfall before the bailout passed. The more politicians try to fill the hole, the bigger it may get.

Back to top