Competitive Enterprise Institute

Oppose Taxpayer Bailouts of Underfunded Union Pension Funds

In trying to attract new members, labor unions often tout the promise of a secure retirement to their members in the form of defined benefit pensions. However, many union pension plans today are severely underfunded. Some have been in trouble for years, and the latest economic downturn has only exasperated the problem. In 2008, the Department of Labor listed the status of 230 union plans as either endangered—less than 80 percent funded—or critical—less than 65 percent funded. In 2009, Moody's Investors Service estimated all union pensions to be underfunded by $165 billion.

As a result, one of organized labor's top policy priorities is to get taxpayers to bail out these severely underfunded union pension plans. In the 111th Congress, this effort took the form of the Create Jobs and Save Benefits Act, introduced in the House by Rep. Earl Pomeroy (D-N.D.) and in the Senate by Rep. Robert Casey (D-Penn.). The Pomeroy-Casey bailout bill would create a new fund within the Pension Benefit Guaranty Corporation (PBGC), an agency chartered by Congress that insures private sector pensions.

The PBGC is funded through premiums paid by private employers to insure retirees if a plan sponsor were to become insolvent. The Pomeroy-Casey legislation would direct taxpayer dollars to shore up some underfunded union pension plans. It would create a new fund to the PBGC, known as the "fifth" fund, whose obligations would be "obligations of the United States"—that is, taxpayers. The use of public funds to insure private pension plans is a first for PBGC and stark departure from the way it has operated since its creation in 1974.

Earl Pomeroy lost his reelection bid, but just because unions lost one champion of this legislation does not mean they cannot find another in the incoming Congress. Pomeroy was an odd sponsor of such legislation anyway—unions are not exactly political powerhouses in North Dakota. Still, given enough support from the national Big Labor establishment, another unlikely lawmaker could take this up. Members of Congress who are serious about reining in spending and protecting taxpayers should oppose any revival of this legislation.

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