PRIVATE PENSION REFORM

The Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures private-sector pensions, reported a $27.4 billion deficit for FY 2013. Created by Congress in 1974, the agency is funded through premiums paid by insured companies, not federal tax dollars, but the PBGC's pension insurance scheme now functions as a huge corporate subsidy. In its current structure, the PBGC creates a major moral hazard.

Congress should:

- Give the PBGC the flexibility to adjust its own premiums to reflect risk in the future.
- Reject any PBGC bailout legistlation

While the Pension Benefit Guaranty Corporation's reported $27.4 billion deficit for FY 2013 was an improvement over the previous year's $34 billion figure, the agency still faces major challenges in fulfilling its mission. Moreover, that slightly improved outlook extends only to single-employer pension plans, not multiemployer plans, of which a significant percentage face a serious risk of insolvency. The PBGC now projects that its multiemployer program's deficit will grow from $8.3 billion in 2013 to $47 billion by FY 2023. Insolvencies now threaten about 1 million multiemployer plan beneficiaries. That level is clearly unsustainable.

Created by Congress in 1974 as part of the Employee Retirement Income Security Act, the PBGC is funded through premiums paid by insured companies, not federal tax dollars, but the PBGC's pension insurance scheme now functions as a huge corporate subsidy. In its current structure, the PBGC creates a major moral hazard.

Congress recently raised PBGC premiums, an idea the Government Accountability Office has endorsed. But Congress should go further and give the PBGC the flexibility to adjust its own premiums, like the Federal Deposit Insurance Corporation does. Lawmakers should not be in the business of setting prices, and there is no reason to make an exception for pensions, especially for an insurer supposedly funded by premiums.

For the beneficiaries of that de facto subsidy, defending it publicly requires some rhetorical sleight of hand. A May 2014 U.S. Chamber of Commerce report describes PBGC premium hikes as "essentially tax increases on the businesses that pay them." In reality, raising premiums amounts to the removal of a subsidy—a removal that can be made permanent only by Congress getting out of the business of setting the PBGC's premiums.

The U.S. government is not directly responsible for the PBGC's unfunded liabilities, but the agency's massive, mounting deficit makes a federal bailout a real possibility. In fact, some politicians have already proposed such a bailout. A bill introduced in the 112th Congress by Sen. Robert Casey (D-Penn.) sought to make the federal government explicitly liable for multiemployer plans under the PBGC's purview. The bill failed, but similar schemes could come up again, especially if the PBGC's deficit were to get much worse. Congress should resist any attempt at a bailout.

Experts: Ivan Osorio, Aloysius Hogan

For Further Reading

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Nick Thornton, "PBGC Warns of Swelling Deficit in Multiemployer Plans," Benefitspro.com, June 30, 2014, http://www.benefitspro.com/2014/06/30/pbgc-warns-of-swelling-deficit-in-multiemployer-pl.