Insurance fund for US pensions could be insolvent by 2025, agency director warns

By Gabriel Black
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Last week the Pension Benefit Guaranty Corporation (PBGC) released its 2016 annual report, which showed that its multiemployer program deficit had risen by $6.5 billion to a record-high debt of $58.8 billion. The agency's combined debt for its single and multiemployer program totals $79.4 billion.

In a conference call, last week, PBGC Director Tom Reeder said the agency is set to run out of funds by 2025 unless action is taken.

The Pension Benefit Guaranty Corporation (PBGC) is an independent government agency created in 1974 to ensure the payment of pensions. The PBGC pays out pensions up to a federally defined maximum (about $60,000 a year in 2016) when pension plans under its protection break down.

The growth of the combined PBGC debt to nearly $80 billion testifies to the deep crisis of the US pension system.

Amid the deepening global economic crisis, employers, both public and private, have launched an attack on workers' pensions. Employers have sought to end defined pension plans and replace them with cheaper and weaker 401(k) plans. When employers are unsuccessful at reducing pensions and retirement health benefits they use bankruptcy, as well as merger and acquisition, to tear up old contracts.

The PBGC's debt is an estimation that it makes based on the balance between expected defaults of pension plans that it covers and its incoming funds, primarily based on premiums paid by suppliers of these pension plans.

The large increase this year of the PBGC debt is based on their estimation that more plans they cover are expected to default in the coming decade.

Secretary of Labor Tom Perez wrote in the introduction of the report: "Insolvency of PBGC's multiemployer insurance program would devastate not only the retirement benefits of the 1 million to 1.5 million participants and their families in these at-risk plans, but all the participants in multiemployer plans that are currently receiving financial assistance from PBGC as well."

In the PBGC's multiemployer fund, a fund that allows companies to pool together into one larger pension fund, there are about 10 million workers. Of these 10 million workers, 1.5 million are in plans that are likely to run out of money in the next 20 years.

The PBGC's solution to the crisis is to ask Congress to dramatically raise the premium rates paid by companies for the PBGC's insurance service. The PBGC said in June that the minimum rate increase needed to prevent the insolvency of the agency was a 360 percent hike. Currently the rate is $27 per person per year.

For companies paying pensions to large groups of employees, a 360 percent hike is a significant increase in the insurance premium. Furthermore, this increase is coming at a time when pension plans are already under attack and the cost of retirement is being pushed back onto the workers.

The result of this dramatic hike would be to intensify the attack on workers' pensions. Employers would offload the cost of the rate hike onto workers' pension plans, further threatening the right of all workers to a good retirement.

If the hike is not permitted—a move that would amount to an effective congressional sabotage of the PBGC—the entire insurance system could collapse, leaving millions of workers with no pensions at all.

One pension fund that would be affected is the Central States Pension Fund. The Central States Pension Fund is one of the multiemployer funds that

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the PBGC now oversees and pays out due to the fund's problems. This fund primarily provides pensions to hundreds of thousands of former truck drivers, one of the nation's largest professions.

Last week, DuPont announced that it would no longer contribute to current employees' pension plans, effectively stopping payments to 13,000 current employees effective November 2018. In addition to this, the company is eliminating all retirement health benefits, including dental and life insurance for all employees under the age of 50.

The announcement follows the merger of DuPont with Dow. The $130 billion merger will create the largest chemical company in the world in an effort to stave off the deepening global economic crisis.

New DuPont employees were already cut off from the pension in 2007. These workers are on 401(k) plans, which are subject to the likely prospect of a new financial crisis in the coming years.

The company estimates that this recent cut to pensions will save the company $550 million. Earlier this year the company also eliminated 2,500 jobs, about 4 percent of DuPont's global workforce.

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