U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN
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Opening Statement of Sen. Chuck Grassley, Chairman, Committee on Finance
Hearing, "The Funding Challenge: Keeping Defined Benefit Pension Plans Afloat"
March 11, 2003

Welcome to today's hearing on defined benefit pension plans and the rules we use to fund them. This is our first pension hearing in the 108th Congress. Before I proceed I want to welcome our witnesses from the administration and from the plan sponsor community. I'm sorry that a representative of the Treasury Department was not able to join us, and I look forward to hearing from Mr. Fisher at his earliest convenience. We're here today to discuss what is the proper measure to value the liabilities of pension plans. The statutory rate is the 30-year Treasury rate. But in October 2001, the Treasury Department discontinued issuing the long bond. At the same time, the interest rate on the bond was at a 40 plus- year low. While the Treasury Department is still calculating the yield on the 30-year Treasury bond, the number is becoming more and more "soft." In the economic stimulus bill of 2002, Congress granted interest rate relief to plans for 2002 and 2003. We are quickly running out of 2003 and plans are running out of relief. This is not to say that plans are fully funded. While some are well-funded, others are not. The newspapers are full of stories about underfunded pensions.

In the past three years, the Pension Benefit Guaranty Corporation (PBGC) has taken over the pension plans of almost the entire United States steel industry. The PBGC already held the pension plans of many airlines when, earlier this month, the bankruptcy court advised that they could take over the U.S. Airways Pilots' plan. The unfunded liability remaining in airline pension plans is a staggering $18 billion. The PBGC is currently $3.6 billion in deficit. Some critics argue that the agency is still "swimming in money." If they take over what is left of the steel industry pension plans and the pension debt of the rest of the airlines, they will not be "swimming." Alternatively, others would argue that the PBGC is barely treading water now and urgently needs a life preserver.

In the past, I have been a critic of the PBGC. But the PBGC is the "back stop" to failed funding promises in our defined benefit pension system. What happens to this tiny agency is critical to millions of American retirees whose pension benefits were not there for them when they were ready to retire. Therefore, I hope none of our witnesses will make light of the mission of this agency. A lot of what we are going to talk about today has to do with balancing the need to have fully-funded plans for all Americans, with the need to encourage defined benefit pensions. There are activists who, for whatever reason, do not believe that defined benefit pensions are best for Americans. There are others who simply disapprove of one type of defined benefit arrangement, such as hybrid plans.

But a pension provides every retiree with the option for a life-time pay out of their benefit. Nowadays, a minority of workers have a pension. In 1987, there were over 111,000 defined benefit plans in this nation. But today there are barely 30,000 plans remaining. This decline in the number of defined benefit pension plans is bad for Americans. A 401(k) account is not required to pay out in an annuity form. I have often said, "One serious illness, and a worker can wipe out his entire retirement savings." If workers have no defined benefit pension plans and they outlive their 401(k) savings, then they have only Social Security to depend on. The long-term outlook for Social Security is for long-term deficits beginning once the baby boomers start to retire. So, we ought to be looking at ways to encourage sponsorship of defined benefit pension plans. Funding rules that are too harsh will not encourage DB plans. But funding rules should not allow sponsors to manipulate the system, and make pension promises that they cannot deliver on or foist those promises on the PBGC and on those solvent employers who pay premiums into the system. This does not provide the protection necessary for workers to have faith in their plans. So please bear in mind that this is all a balancing act. We must encourage employers to keep these plans, but not at the expense of workers and their faith in the defined benefit pension plan system.