Committee On Finance
Max Baucus, Ranking Member

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HEARING ON THE FUNDING CHALLENGE: KEEPING DEFINED BENEFIT PENSION PLANS AFLOAT

Today's hearing is focused on the difficult balances associated with funding defined benefit pension plans. These issues are similar to the issues surrounding the Social Security system. That is, we need to make sure that the funding is in the system so Social Security recipients are not denied their benefits, so the benefits promised for the future are benefits paid in the future.

At the same time, we should not require unwarranted excess payments to be made into the system. We need to ensure that companies and workers have money today to make investments today. The Enron, WorldCom and other similar company meltdowns illustrate, in very graphic terms, the risks associated with defined contribution plans. Such as 401(k) plans and especially with the even higher risk for 401(k) plans that are not carefully diversified.

However, the focus on 401(k) plans has put defined benefit plans in the spotlight again. While a worker in a defined benefit plan may not get the up-side potential of a 401(k) plan in a bull market – they also should not have to be afraid of the bear market – the weak economy.

Our funding rules, along with the insurance guarantee through the Pension Benefit Guaranty Corporation – the PBGC – are designed to ensure that no one in a defined benefit plan will ever be hit with an empty nest egg. A worker may not get everything she was expecting at retirement, but she should not be left penniless either. The PBGC's insurance program should provide this guarantee.

But the PBGC's guarantees are only as good as the assets that are backing them. That means that if plans are not adequately funded and at the same time the PBGC is not strong – then the guarantees given to workers are eroded. As a result, workers get less than they were promised and other companies find themselves paying higher premiums to make up the shortfall in the PBGC funds.

Everything is relative. As we will hear from one of our witnesses today, a guarantee of $20,000 a year to live on after retirement may sound pretty good – unless you earned $100,000 during your decades of work. And a company that has worked hard to fully fund its pension plan can also pay a price if others are not so prudent – or so lucky – so they drive the cost of premiums up for everyone. Funding defined benefit plans is a careful balancing act.

First, if we allow too little money to be contributed – then workers run the risk of losing some of the benefits they have come to rely on.

On the other hand, require too much money to be contributed – and companies will not even offer the plans because of the cost.

Third, if you require that money to be contributed when a company is already struggling financially, you risk pushing the company over the cliff into bankruptcy.

Clearly, there are no easy answers to this problem. I want to thank Chairman Grassley for holding this hearing. We convened it as a result of the crisis in the airline industry. An industry where companies are still reeling from the combination of the terrorist attack on September 11th and the weak economy.

Nonetheless, responding to funding issues on a piecemeal basis – an industry by industry basis – does not work. Providing relief to one industry without dealing with the bigger picture of our funding structure itself could well start a long line of dominoes falling.

The airline industry is not the only industry struggling in this economy. Quite frankly, it is hard to give relief to one industry without giving relief to all. But, by the same token, the more companies that are allowed to postpone funding their plans results in more workers who are placed at risk.

We need to find the right balance between risk and reward if the defined benefit system is to stay strong and vital. It may take some time to find that right balance, but I believe it will be time well spent. I look forward to hearing from our witnesses today as a first step in that discussion.