Committee On Finance

Max Baucus, Ranking Member

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Statement of U.S. Senator Max Baucus
Hearing on the Financial Status of Pension Benefit Guarantee Corporation (PBGC) and the Administration's Funding Proposal

"We are here today to protect a defined benefit pension system that helps provide retirement security for more than 40 million Americans. We are here to examine the financial status of the Pension Benefit Guarantee Corporation — PBGC — and the funding rules that underpin the benefit promises to these millions of workers.

PBGC is feeling increasing financial pressure. At the end of the 2004 fiscal year, PBGC had a deficit of $23.3 billion. That's a $12.1 billion loss over the preceding year. And PBGC has estimated that the single employer plans covered by its insurance program are underfunded by a collective $450 billion.

These unfunded liabilities come at a time when the number of single employer defined benefit plans covered by PBGC has declined — from a high of 112,000 in 1985 to fewer than 30,000 plans today. As we examine pension funding, we must keep in mind that benefit guarantees and minimum funding rules must go hand in hand. It is appropriate that we are addressing both in this hearing today.

Employee Retirement Income Security Act (ERISA) created both the PBGC and minimum funding rules for defined benefit plans. Before ERISA, there were no guaranteed benefits. If a pension plan terminated with insufficient assets, participants could lose everything. When Congress established PBGC to provide participants with some level of benefit guarantee, we also established minimum funding rules to make plan sponsors responsible for funding benefit promises in an orderly fashion.

Funding rules have always been challenging. Setting the rules involves a difficult balancing act. If contribution requirements are set too low, workers risk losing promised benefits. If contributions are set too high, cash that could be used for business expansion is tied up in the plan — and companies may not even offer the plans because of the cost. 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. There are no easy answers.

I want to thank the administration for its efforts in developing its funding proposal. I recognize a tremendous amount of effort went into the proposal. It deserves thoughtful consideration. Some of our witnesses today believe the proposal will hurt, not help, the defined benefit system. We will hear the kinds of concerns that make defined benefit funding rules such a challenge. Concerns like:

- Plan sponsors need predictability of contribution requirements for cash flow planning, but the proposal may actually increase the volatility of minimum funding requirements.
- The proposal does not do enough to encourage employers to make contributions in excess of minimum requirements.
- And linking a plan's funding target to a company's financial health could result in a downward spiral for troubled employers.

I look forward to hearing comments from both sides on these important issues. It was just last spring that we passed the Pension Funding Equity Act, providing a 2-year, temporary substitute of the interest rate on long-term corporate bonds for the 30-year Treasury rate. That temporary substitute expires at the end of this year.

I hope that we can enact a long-term solution this year that includes not only the interest rate replacement, but other reforms critical to the defined benefit system. I look forward to hearing from our witnesses today, and laying the groundwork for the difficult decisions to come."

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