U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Sen. Chuck Grassley, Committee on Finance Hearing,
"Preventing the Next Pension Collapse: Lessons from the United Airlines Case"
Tuesday, June 7, 2005

Today, we're here to look at a tragedy – the bankruptcy of United Airlines and the massive losses in its employee pension funds. And make no mistake about it – the losses here are devastating; $9 billion of underfunding in this one company's pensions alone. Let me put that in perspective briefly. $9 billion is how much it would cost this committee to keep 6 million American taxpayers out of the AMT next year. $9 billion is how much it would cost to send more than one and a half million students to the University of Iowa next year. The questions we will be asking are simple. How did this happen? Why did this happen? And most importantly, How can we stop it from ever happening again?

The story we will hear brings to mind another corporate catastrophe – the collapse of Enron. Like Enron, workers' lives and retirements have been ruined. Like Enron, the facts scream out the need for reform and the need to restore confidence in our economic system. Like Enron and the phony accounting the company used to hide its losses, we'll learn that United's pension plans used illusory investment gains – kept on the books years after it was clear they would never materialize -- to hide and disguise the true financial condition of the pension plans. Unlike Enron, however, everything United did was perfectly legal. In fact, what the company did is accepted practice by pension plans everywhere.

Today, we'll hear about so-called "smoothing" techniques that allow pension plans to credit paper investment gains and then carry them into the future as long as five years, even if those paper investment gains have long since evaporated. As the stock market plummeted in 2000, 2001, and 2002, United used these smoothing techniques to make its pension plans look like the late '90s stock market boom had never ended. This meant that the plans were not only deteriorating rapidly, but it also meant that United was not required to make additional contributions because on paper everything looked okay. The fuzzy math doesn't stop there, however.

In addition to allowing plans to book phantom investment gains, United was able to use stale, non-market interest rates to value pension liabilities, thereby further disguising funding deficits. In other words, our pension laws tell companies, "Take off the green eye shades, and put on rose-colored glasses." I'm sure that many of you who are here today would like to be able to ignore your own investment losses (and I hope that you don't have too many of those, by the way!), but we all know that putting blinders on doesn't work. But putting blinders on is exactly what United officials did, not only on themselves but also on their employees who were left powerless to know that their pensions were going down the drain. Unfortunately, by the time the blinders come off and anyone figures out what's really going on, it's often way too late – $9 billion too late in this case.

I'm sure some will try to argue that United is a unique case. In fact, the testimony we hear today will make it clear that nothing could be further from the truth. There is nothing unique about United. The same blinders that United put on are used by companies everywhere. Many of those companies want to do the right thing. They ignore the blinders, and voluntarily fund their plans well. But unfortunately there are also some that do not. This committee shouldn't turn a blind eye to the damage that's been done. The PBGC's deficit stands at $23 billion.

More importantly, this committee needs to have a clear view of future damage that will result if the status quo is maintained. Without real reform, we'll hear today that the PBGC's deficit could increase exponentially. Pension plans of other airlines, some of whom are represented here today, are billions and billions underfunded. These airlines promised benefits that were too rich, and they and their unions refused to rein in those benefits even after it became painfully clear that the companies could not afford them. And it doesn't end with the airlines. Across dozens of industries, there are hundreds of billions of dollars of pension promises unfunded. The facts are alarming. The time to act is now. Tinkering with the current rules won't do. Another temporary band-aid won't do.
This committee rose to the occasion after Enron – we worked together and didn't shy away from tough reform. I'm confident we'll rise to the occasion again. We must act to restore public faith in private pensions – faith that the bad actors won't leave their employees high and dry and faith that these bad actors won't be able to continue to pass their compensation costs on to other employers and the American taxpayer.