



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Sen. Chuck Grassley  
Hearing, "Financial Status of PBGC  
and the Administration's Defined Benefit Plan Funding Proposal"  
Tuesday, March 1, 2005

Today, the Finance Committee will hear testimony on the state of defined benefit pension plans. We will focus on the government backer of that system, the Pension Benefit Guaranty Corporation or "PBGC," and the Administration's recent proposal to strengthen pension funding. Defined benefit plans are a critical part of our nation's pension system and our economy as a whole. These plans provide retirement income to millions of Americans. Millions of current workers count on these benefits as they look forward to retirement. Today, our defined benefit pension system is clouded with uncertainty. There is uncertainty for plan sponsors regarding the interest rate used to calculate their pension liabilities. And there is uncertainty for participants who read the headlines and wonder if their pension benefits will really be there for them when they retire.

In the last Congress, attention began to focus on replacing the 30-year Treasury rate for pension funding purposes with a new rate. At the same time, questions began to be raised whether we needed to take a more comprehensive look at reforming the pension funding rules. Here in the Finance Committee, we worked in the bipartisan tradition of this committee on the NESTEG bill. NESTEG included a permanent replacement for the 30-year Treasury rate with the yield curve along with a first round of proposals from the Administration to strengthen pension funding. In acting on NESTEG, I along with Senator Baucus also asked the Administration to provide details on the more comprehensive pension funding reforms on which they were working.

We now have those details, and will spend a considerable amount of time here today discussing and debating them. I look forward to a spirited and thought-provoking discussion. I believe it is critically important that we enact a permanent set of pension funding rules this year. It is critically important for our economy. It is critically important for the companies that sponsor these plans. Most of all, it is critically important for the workers who depend on these plans for their retirement. To that end, Senator Baucus and I have re-introduced last year's Committee-reported NESTEG bill, and announced our intention to work to reform the pension funding rules in a permanent manner. Defined benefit plans are a vital part of our private retirement system. At the same time that we recognize the defined benefit pension system's many good attributes, however, we must be mindful of its current problems.

The PBGC's current deficit is \$23 billion. That's \$23 billion of exposure for all taxpayers. Most of those taxpayers do not have a stake in the defined benefit system. Only about 20 percent of workers have a defined benefit plan today. About half of workers lack an employer-provided retirement plan -- either defined benefit or defined contribution -- altogether. That's a sad and disturbing statement in itself. Hopefully, we can move that percentage up a lot. To the extent that

progress has been made on increasing retirement plan coverage, this committee has been largely responsible. I worked to have retirement savings provisions included in the 2001 tax cut. And I've enjoyed a long relationship working with Senator Baucus on increasing coverage and improving our retirement system. One such idea is the bipartisan savers' credit that my friend, Senator Baucus, pursued with others in the 2001 tax act.

Since only about 20 percent of workers participate in the defined benefit system, one question we have to confront is whether the other 80 percent of workers not covered by a defined benefit plan should be responsible for subsidizing the pension benefits of the minority who do. There are other alarming trends to note as well. Many employers, particularly those in older industries, have over-promised or under-funded, and often both. Those promises are now coming due. Too often, these businesses, with the collaboration of unions, act as if their obligations to their workers are the taxpayers' responsibility.

Far too often, large companies have cavalierly sloughed off their defined benefit liability onto the taxpayers. Far, far too often the taxpayers have ended up holding the bag on a badly-negotiated employee benefit deal. The Administration, to its credit, has stepped up with a tough defined benefit reform package that would strengthen pension funding. The predictable howling from some employers and union groups has begun. I'd say to the howlers, we're, as Ross Perot used to say, "all ears." But, what we don't want to hear is complaints only. If you don't like the Administration's tough medicine, what's your solution? How do you assure the taxpayers that we're not digging a bigger deficit ditch at the PBGC? How do you assure current retirees that they can count on a funding source for the benefits that were promised to them? How do you assure current workers that their promised defined benefits won't be defined and paid by the federal government? I'm looking for answers here. I'm not looking for complaints without constructive alternatives.

While we're talking about constructive alternatives, I'd like everyone in Congress to consider turning off the anti-Social Security reform water cannon for an afternoon. Let's put away the attack charts, shut down the gimmicky biased benefit calculators, focus on solving a problem, and do the people's business. Instead of strident statements against any effort to reform Social Security, I'd like us to recognize that President Bush has raised the profile of our nation's retirement security challenges. He has used the bully pulpit to put retirement security issues front and center. Let's not waste the opportunity. I'm still hopeful that the Finance Committee can rise above the discussions taking place over the air waves on Social Security and work toward a long-term solvency proposal. Perhaps fixing the defined benefit plan system can be part of that effort. We owe it to the people who sent us here to focus on these problems. Most of us got on this committee to solve problems, and we're going to do that.