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Looming pension system crisis

By Judd Gregg
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Probably few Americans are familiar with the acronym "PBGC." This is the federal Pension Benefit Guaranty Corp., set up by Congress 30 years ago to provide insurance for defined benefit pension plans.

Today, the PBGC's insurance program is overwhelmed, underpriced and proves a false sense of security to tens of millions of American workers and retirees. Companies are too often offloading their pension commitments to the agency, leaving PBGC with a $23 billion deficit at the end of 2004 after posting an accounting surplus of more than $7 billion in 2001. According to the Congressional Budget Office (CBO), that deficit is likely to grow dramatically over the next 10 years -- by as much as $48 billion -- and the PBGC's single-employer program is slated to run out of cash sometime between 2020 and 2025. That is more than 20 years earlier than the expected Social Security shortfall.

As chairman of the Senate Budget Committee, I believe this serious long-term fiscal problem must be addressed now. While the root of the problem concerns widespread underfunding among defined benefit pension programs and an outdated law permitting it -- an issue the administration and Congress are tackling -- we also must take steps to maintain the PBGC's solvency and protect participants, beneficiaries and investors.

The fiscal 2006 budget resolution recognizes the PBGC faces a serious crisis, and includes a reconciliation instruction providing for $6.6 billion to be raised by 2010 to help shore up the PBGC while necessary reforms are made.

What should these reforms include? The Senate Budget Committee recently heard from PBGC Executive Director Bradley Belt and CBO Director Douglas Holtz-Eakin on the issue. But I believe some basic changes must be made.

The PBGC receives no appropriated funds. Claims are paid primarily from the revenue of the premiums from sponsors of covered pension plans. Current annual fixed-rate premiums are set at $19 per participant, well below the value of the PBGC insurance. Rules surrounding fixed and variable premium levels must be updated, taking into account the amount of existing underfunded liabilities.

Employers should not offer workers benefit increases that cannot be paid for, particularly when a defined benefit plan is already underfunded. The law must tangibly penalize underfunding to limit risk-shifting to employees, the PBGC and other companies that pay premiums.

Accounting schemes to mask massive funding shortfalls must be stopped. Interest rate policies and funding targets must be straightforward to administer, and consistent with each plan's liability payout schedule.

Transparency also must be addressed. Too often, workers are not given enough current and relevant information to make informed decisions about their future retirement funds. Beneficiaries must get timely notice when their retirement income is in jeopardy, and must be assured the law doesn't allow pension plans to make hollow promises. These reforms can all be made if we act now and without a taxpayer bailout.

The bottom line: The PBGC will start to run short on cash just under five years. It will take roughly another 15 years to liquidate its remaining assets to pay claims. Then it will all be gone. Under current law, the PBGC is only authorized to borrow up to $100 million from the U.S. Treasury -- which pales in comparison to the projected shortfall and the amount needed to pay out the current projected level of insured benefits.

The good news is we have a narrow window of opportunity to resolve the pension funding crisis before the system implodes. Congress must now seriously examine and address pension underfunding and across-the-board retirement reform. Every American worker deserves a sense of ownership of his or her retirement income, and clear and valid information about future retirement income in order to make informed decisions.

While critical reforms must be made to the defined benefit pension system as a whole, the PBGC must be made solvent through realistic premiums, stringent funding rules and improved transparency to participants, beneficiaries and investors. We simply cannot afford to stand by and do nothing.

Judd Gregg, New Hampshire Republican, is chairman of the U.S. Senate Budget Committee.