Transcript of Opening Statement by Senator Kent Conrad (D-ND) at Senate Budget Committee Hearing on Solvency of the Pension Benefit Guaranty Corporation with PBGC Executive Director Bradley Belt and CBO Director Douglas Holtz-Eakin
June 15, 2005

Thank you very much Mr. Chairman, and thank you very much for holding this hearing. We have seen an outpouring of concern on this issue since the United Airlines default.

Let's go that first slide. The *Washington Post* ran this story on the "Human Toll of a Pension Default." And they told the story of the family of a young United pilot who died in the disaster of September 11th. And, that young pilot's widow now faces a cutting in half of her pension benefits because of the United default. We know that some 120,000 employees of United are going to absorb the $3.2 billion of that default not covered by the PBGC. These are people earning pensions over $45,000 a year.

And I know myself, I grew up with a young guy in North Dakota, a very dear friend who wound up becoming a United pilot after a distinguished career in the military, and he was in town just recently and told us he's lost a significant majority of his pension benefits. And that story is repeated over and over in this story that was in the *Washington Post*. Those who were counting on a retirement that they thought was assured, certainly one that was promised to them, and now find the rug pulled out from under them.

We know that PBGC has experienced a dramatic reversal of fortunes in recent years. In 2001, PBGC reported a cumulative surplus of $7.7 billion, a surplus. Now, we see a current PBGC liability of $23 billion, as the Chairman indicated, growing to an estimated PBGC liability of $91 billion in 20 years.

That is an incredibly serious matter for all of those who are in danger of having their pension benefits reduced from what they thought was assured. At that rate, assets in the PBGC fund will have been exhausted, and without serious reform PBGC may pay only pennies on the dollar each year to beneficiaries.

Director Holtz-Eakin, you have warned of the risk to beneficiaries, stating that an insolvent PBGC would necessitate a drastic reduction in benefits, perhaps in excess of 90 percent. The maximum pension insured by Pension Benefit Guaranty Corporation now is $45,614. If that had to be reduced by 90 percent, that would be only coverage of $4,561. Can you imagine the extraordinary hardship that would impose on people who once again are counting on these pension benefits? And you know, when you reach retirement age, what are you going to do to catch up? What are you going to do to make this all work? That is a very serious threat facing people.

The Chairman asked the question, "What do we do?" That's precisely the question we ought to ask and try to answer. One thing we know is that there are things that could be done here that make the situation worse. Again, Director Holtz-Eakin, you warned the Finance Committee that, "Changes in policy that require augmented pension funding would impose new costs on sponsors...probably increasing the chances for further bankruptcy filings..." So first thing we have to do is make sure we do no harm. We don't dig this hole deeper.

As part of this year's budget resolution, the HELP Committee which oversees the Pension Benefit Guaranty Corporation must approve savings proposals of $13.7 billion over five years, some of which is assumed to come from PBGC. The HELP Committee has the largest instruction of any Senate Committee, higher than even the Finance Committee, and equal to just under 40 percent of the $34.7 billion of projected savings. There you can see the HELP Committee has by far the biggest instruction in terms of savings and they've got responsibility for PBGC.

Congress clearly needs to act, whether as part of reconciliation or in some stand alone legislation. I am interested in hearing more from Mr. Belt about administration proposals. As I see it, there are really four components to the administration's proposal. Number one, increase premium income, and really two elements to that: increase fixed premium from $19 to $30 per plan participant, and second, apply variable premiums to every dollar of plan underfunding. The second major element of the administration's proposal is to reform minimum funding levels, to reform how companies calculate the minimum funding levels that are needed for their pension plans. Third, prevent companies that have underfunded plans from worsening the situation by further increasing pension benefits. And, fourth, improving the transparency of the financial status of pension plans for employees, pensioners, investors and other stakeholders. This is at least my attempt to summarize, Mr. Belt, the proposals that you are making.

My own conviction is we need to provide a practical path for employers who have established defined benefit plans, to maintain those valuable plans for their employees and retirees. Termination should be an extraordinary step for a plan sponsor, not merely another financial option. Employees and retirees are relying on these promises and we should not let them down.

It is also clear to me that some of the requirements that we have had in the past really don't make much sense. We have, in fact, restricted companies on what they could put in in the good times to their pension plans, and then when, of course, the bad times come, the downturn occurs, they are in no position to catch up. So I think that's one of the things that we require as well.