

# SENATE BUDGET COMMITTEE

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## KENT CONRAD, RANKING MEMBER

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### **CONRAD RELEASES WHITE PAPER ON ASBESTOS BILL Analysis Finds Significant Risk That Trust Fund Will Require Taxpayer Bailout**

**Washington, D.C.** – The asbestos-related legislation before the Senate is “seriously flawed,” Senate Budget Committee Ranking Member Kent Conrad (D-ND) said today, because the bill’s financial lynchpin – a fund to pay compensation to asbestos-sickened people – would be underfunded and would force taxpayers to pay as much as \$150 billion over time. It is quite possible the shortfall could be close to \$300 billion over time.

“I am as concerned about the pain and sickness so many American citizens and their families, particularly veterans, are suffering because of asbestos-related illness,” Senator Conrad said. “But this bill is seriously flawed. It sets up a fund that is destined for a taxpayer bailout, or it will provide only a fraction of what is promised to victims of asbestos. It offers a false promise to victims of asbestos.”

A Budget Committee Democratic staff analysis of S. 852, the Fairness in Asbestos Injury Resolution Act of 2005, predicts a shortfall of more than \$150 billion in the federal trust fund. The bill proposes that the federal government manage the compensation fund, which would be paid into by insurance companies and the companies that are currently defending themselves from asbestos-related lawsuits.

While the bill would collect a maximum of \$140 billion from those defendant companies and insurance companies for the trust fund, the Budget Committee analysis found that the amount of claims and the cost to run the fund would far exceed the \$140 billion paid into the fund. The bill fails to properly budget for the cost of debt the trust fund would have to take to cover the first rush of claims.

The staff analysis is based on the Congressional Budget Office’s (CBO) cost estimate of S. 852 from last August. The analysis focuses on a few of the areas that CBO has admitted it either could not estimate costs – and therefore omitted them from its estimate – or that it made assumptions that were highly uncertain. Specifically, the Budget Committee analysis found:

- Claims and administrative expenses of the asbestos trust fund are likely to exceed contributions paid into the trust fund.
- However, the total shortfall to the fund is far greater than that amount. Up-front claims will

likely far exceed up-front contributions, forcing the trust fund to borrow substantial amounts from the Treasury. Interest on the borrowing substantially increases the cost of operating the trust fund, raising the expected shortfall to about \$150 billion in nominal terms over the approximately 50-year lifetime of the trust fund, or roughly \$50 billion in net present value terms.

- Minor adjustments in the amount and timing of claims assumptions can quickly bankrupt the fund.
- The experience of other injury compensation programs, such as the Manville Trust and the Black Lung Program, demonstrate that initial estimates of claims and payments are often far too low. CBO reported that actual claims against the Manville Trust may be ten to 40 times original estimates. The Government Accountability Office (GAO) found that actual payments from the Black Lung Program through 2004 were almost fourteen times greater than original estimates.
- Once created, it is unlikely the trust fund will ever terminate – even after insolvency.

“The last thing we want to do is create a government-managed fund that we know will be insolvent,” Senator Conrad said. “This bill will not assure fair recovery for anyone who is sick – and it will leave taxpayers to cover billions of dollars in claims after the fund sinks into insolvency.”

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