MINORITY VIEWS

H. Con. Res. 95 "Employee Retirement Income Security Act" (ERISA) Pursuant to the Conference Report on H. Con. Res. 95, the Budget Resolution for Fiscal Year 2006

Subtitle C – Pensions:

The defined benefit pension system, which protects the retirement security of over 44 million workers, retirees, and their families, is at a critical moment. The number of defined benefit plans has declined precipitously from over 100,000 in 1985 to under 32,000 in 2004.[1] Approximately 1200 plans have terminated and shifted unfunded liabilities onto the PBGC leaving it with a $23-27.5 billion deficit.[2] The PBGC estimates that it faces additional possible liabilities of $100 billion; the Congressional Budget Office believes the market value of PBGC's liabilities could be as high as $146 billion.[3] The PBGC reports that total pension underfunding by pension plans exceeds $450 billion.[4]

Given these dynamics, the challenge for the Congress is how to address pension underfunding in a way that does not lead to additional pension plan terminations, or jeopardize the retirement security of the 44 million individuals who depend on these retirement plans.

Congress was first alerted to the severity of this problem in 2002 when the PBGC first reported its shift from a $10 billion surplus to an $11 billion deficit in less than 2 years.[5] Throughout this period, Democratic members of the Committee repeatedly called for action by the Bush Administration and the Majority to act on pension reform. Unfortunately, years passed before they took the crisis seriously; since those warnings, pension underfunding has doubled, and the problem now puts taxpayers and employees at risk for billions of dollars.

When the Administration finally responded to the pension crisis, it proposed a measure that would have given a jolt to already struggling pension plans by increasing contributions by $430 billion over 7 years: such an action would create a strong disincentive for many employers to continue to offer plans.[6] We want to encourage employers to stay in the system, not force them out.

Chairman Boehner introduced pension funding reform legislation, H.R. 2830 on July 9, 2005, and the bill was ordered reported out of the Full Committee within three weeks. During the Committee's one hearing on the bill both the employer and worker representative witnesses expressed serious reservations regarding the bill's effects on employers, workers, and the defined benefit system. Democratic members repeatedly asked Chairman Boehner to share with the Minority any analysis his office had undertaken in preparation of the bill, but no information was provided. Democratic members also asked the Administration for its analysis of the effects of H.R. 2830, but no information was provided.

During the markup, the majority represented to the committee that H.R. 2830 would improve the financial condition of the PBGC and private pensions. Committee Democrats voted present on final passage of the bill in large part because we were not provided information on the economic effects of the bill.

However, contrary to these assertions the PBGC recently submitted to the Committee its analysis of H.R. 2830 and concluded that the bill would actually reduce employer pension funding contributions and increase the PBGC's future deficit more than either the Administration's proposal or current law. The Congressional Budget Office (CBO) sent a comparable letter to Chairman Boehner estimating that H.R. 2830 would increase PBGC's deficit by an additional $9 billion over current law. (Attached below.) The Committee bill, according to the CBO hastens PBGC's deficits. CBO concluded, "H.R. 2830 would increase PBGC's 10 year net costs by $9 billion, or by about 14 percent compared with what it would be under current policy." The bottom line of these two studies is that this Committee voted last spring to actually worsen – not improve – pension underfunding and staggering PBGC's deficits.
(Analyses attached.)

We agree that legislation is needed to improve the financial solvency of the PBGC, and voted to support the Chairman's mark on those changes. However, we remain concerned about the Majority's broader bill, H.R. 2830, to amend the defined benefit pension plan funding rules. We believe that bill is flawed in several critical areas:

- Fails to reform pension underfunding.

- Does not make pension plan underfunding data public - Participants would only receive a summary of certain information and only the key Committees in Congress would receive the full information on a confidential basis.

- Does not ensure fair treatment between executives and rank and file workers - Workers' benefits are reduced if the employer funded the plan below 80%, however executive benefits are only affected if the plan is funded below 60%.

- Does not discourage or prevent future terminations - The bill does nothing to prevent future underfunded pension plan terminations. Employers could still use the bankruptcy code to completely escape their pension obligations. The bill does not encourage or require employers to consider alternatives to termination. (However, the new termination exit fee to be added as part of budget reconciliation could discourage future terminations.)

- Does not encourage employers to maintain defined benefit plans - The defined benefit system is currently in a weakened state. Forcing plans to significantly increase funding will encourage more plans to exit the defined benefit system.

We need to get pension reform right. We have already lost precious time since our side issued warnings over three years ago that reform was urgent. Now more airlines and other employers are considering dumping their pensions, and we have done nothing to protect workers and retirees who face catastrophic losses to their nest egg. These premium increases will serve no purpose if we fail to pass real pension reform. Millions of Americans are feeling jittery about their nest egg, with good reason. They are looking for us to take decisive action on their behalf to sure up pensions. So far this Committee has not done the job.

[1] PBGC Annual Report, 2004.
[2] PBGC Annual Report, 2004; PBGC letter to the Honorable George Miller dated July 29, 2005.
[3] Congressional Budget Office, The Risk Exposure of the Pension Benefit Guaranty Corporation, September 2005
[4] PBGC Annual Report, 2004.
[5] PBGC Annual Report, 2002.
[6] PBGC letter to the Honorable George Miller dated July 29, 2005

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas Holtz-Eakin, Director

October 17, 2005

Honorable John Boehner, Chairman
Committee on Education and the Workforce
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Knowing of your interest, the Congressional Budget Office (CBO) has estimated the effect on the 10-year net costs of the Pension Benefit Guaranty Corporation (PBGC) of enacting the Administration's pension reform proposal and H.R. 2830, the Pension Protection Act of 2005.

These estimates differ significantly from CBO's estimates of the cash-basis budgetary effect of the proposals. The largest source of difference is that the estimate of net costs includes two items that are not included in the budget estimate: the cost of market risk and the present value of benefit payments outside the budget window for plans terminated in the next 10 years.

The Administration's pension reform proposal would increase PBGC's 10-year net costs by $7 billion, or by about 11 percent compared with what it would be under current policy. H.R. 2830 would increase PBGC's 10-year net costs by $9 billion, or by about 14 percent compared with what it would be under current policy.

The largest effects on overall net costs from both proposals are due to (1) extending the use of corporate interest rates rather than reverting to Treasury interest rates for discounting future pension obligations and (2) lengthening the period over which underfunding is amortized—both of which increase PBGC's net costs. The largest reductions in net costs result from the increases in the fixed-rate premium.

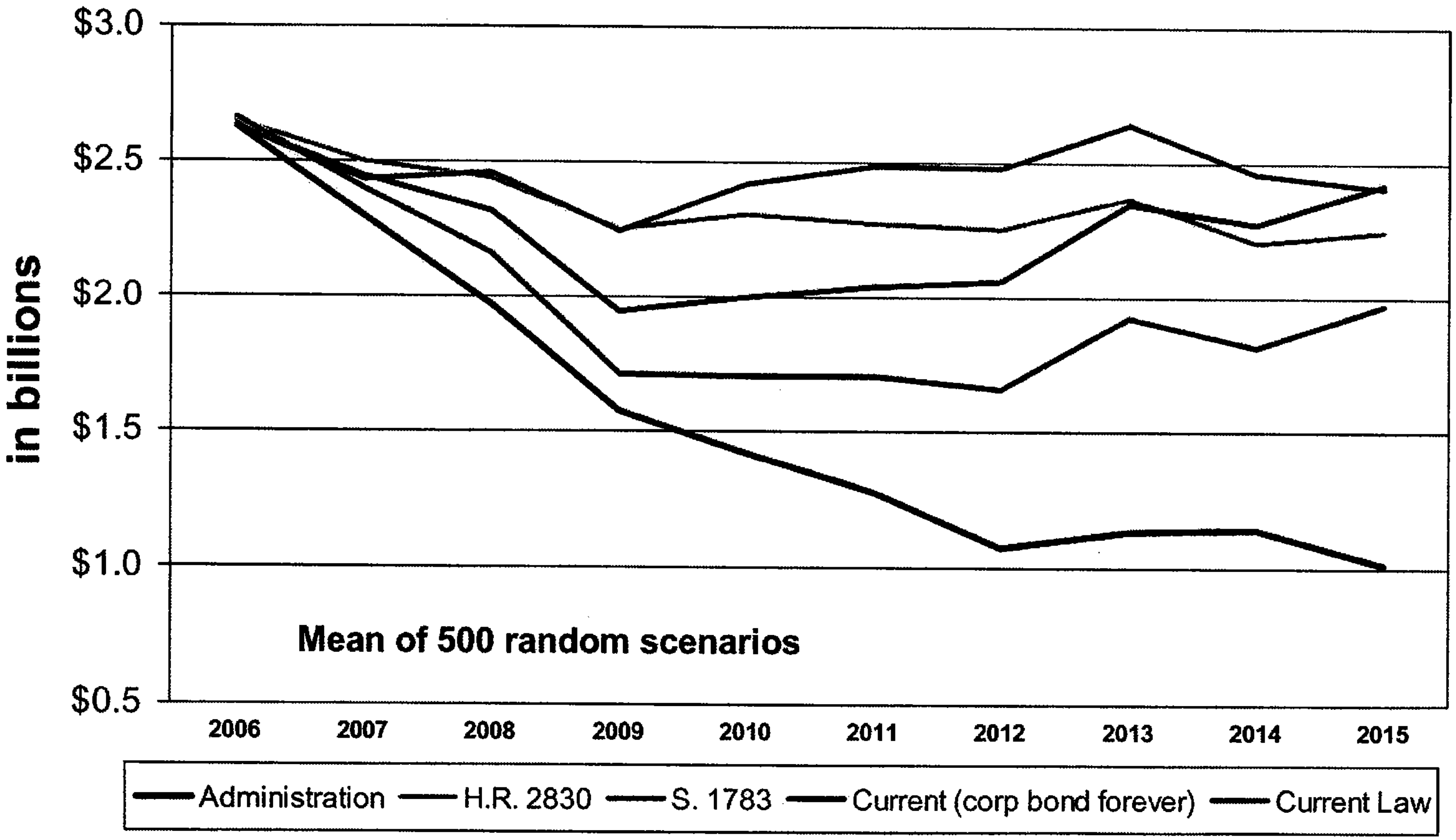
If you wish further information about this legislation, we would be pleased to provide it. The staff contacts are Wendy Kiska and Marvin Phaup.

Sincerely,

Douglas Holtz-Eakin
Director

cc: Honorable George Miller
Ranking Democratic Member

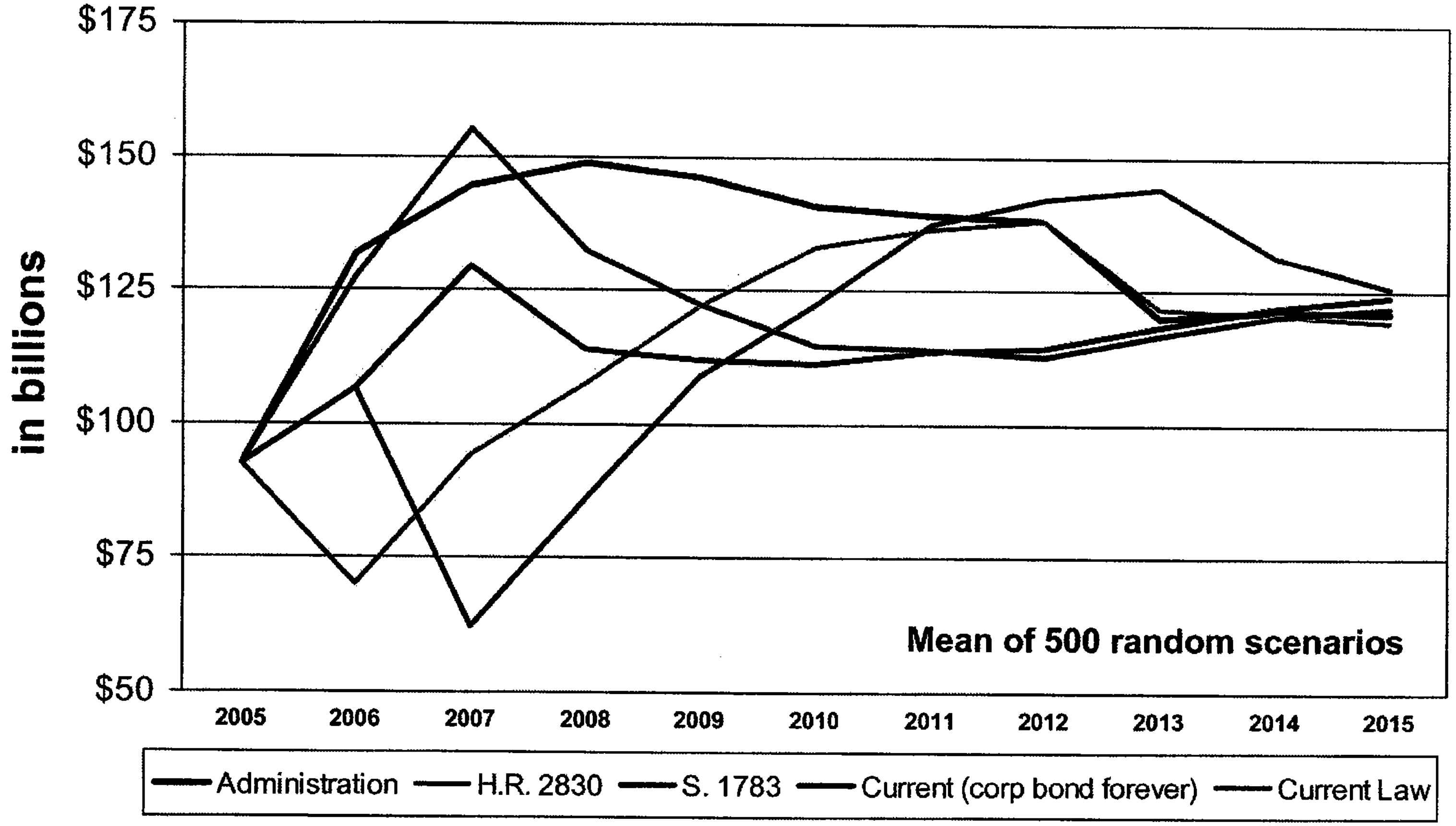
Claims against the pension insurance program



Present value of aggregate claims 2006-2015

$ in billions	25% percentile	75% percentile	Mean	Mean as a percentage of current law
Current Law	$7.0	$19.7	$14.8	100%
Administration's Proposal	$5.7	$15.7	$11.9	80%
Current Law - corporate bond forever	$8.1	$22.2	$16.6	112%
H.R. 2830	$8.4	$22.7	$17.3	117%
S. 1783	$8.8	$23.4	$18.1	122%

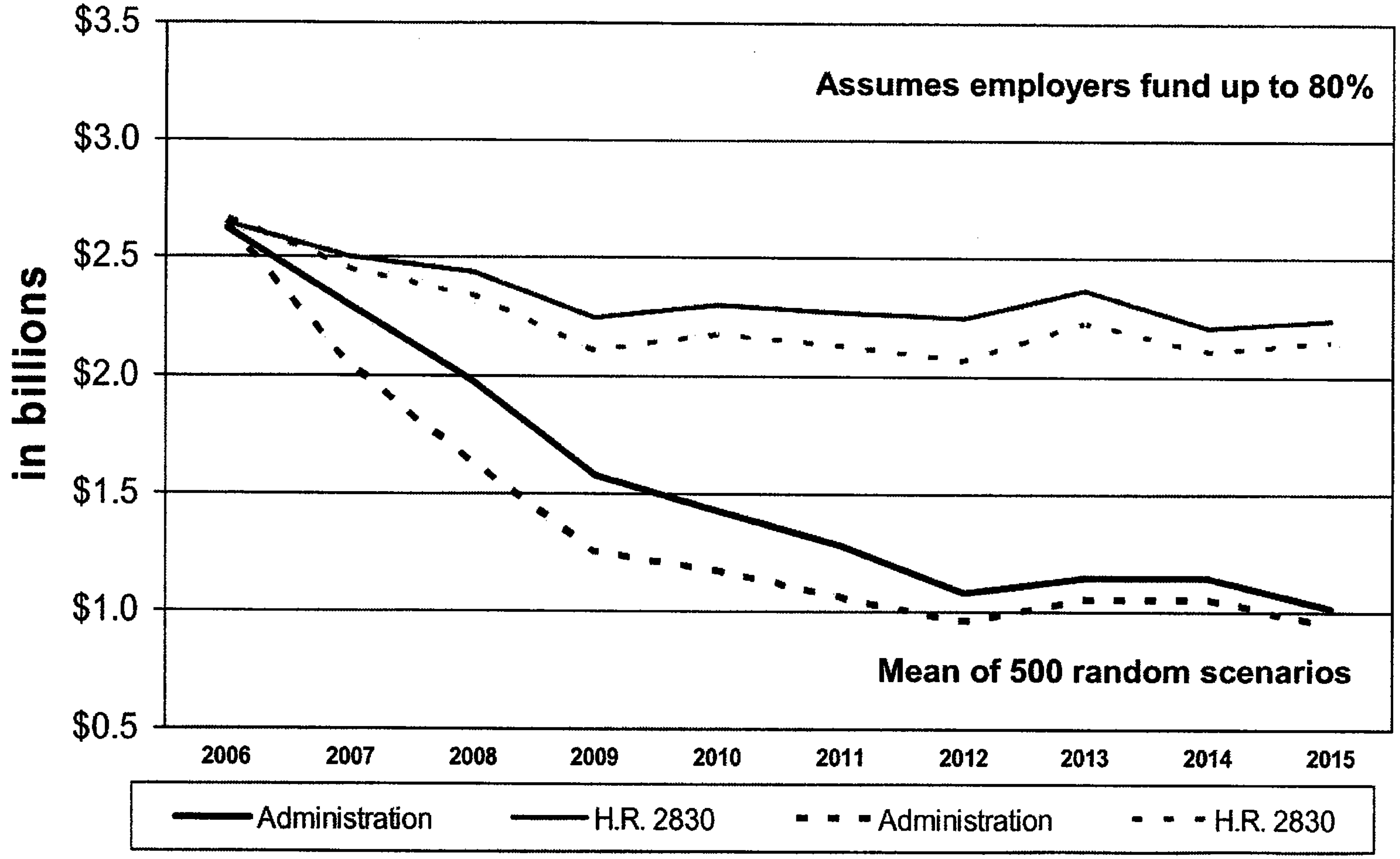
Aggregate Required Contributions



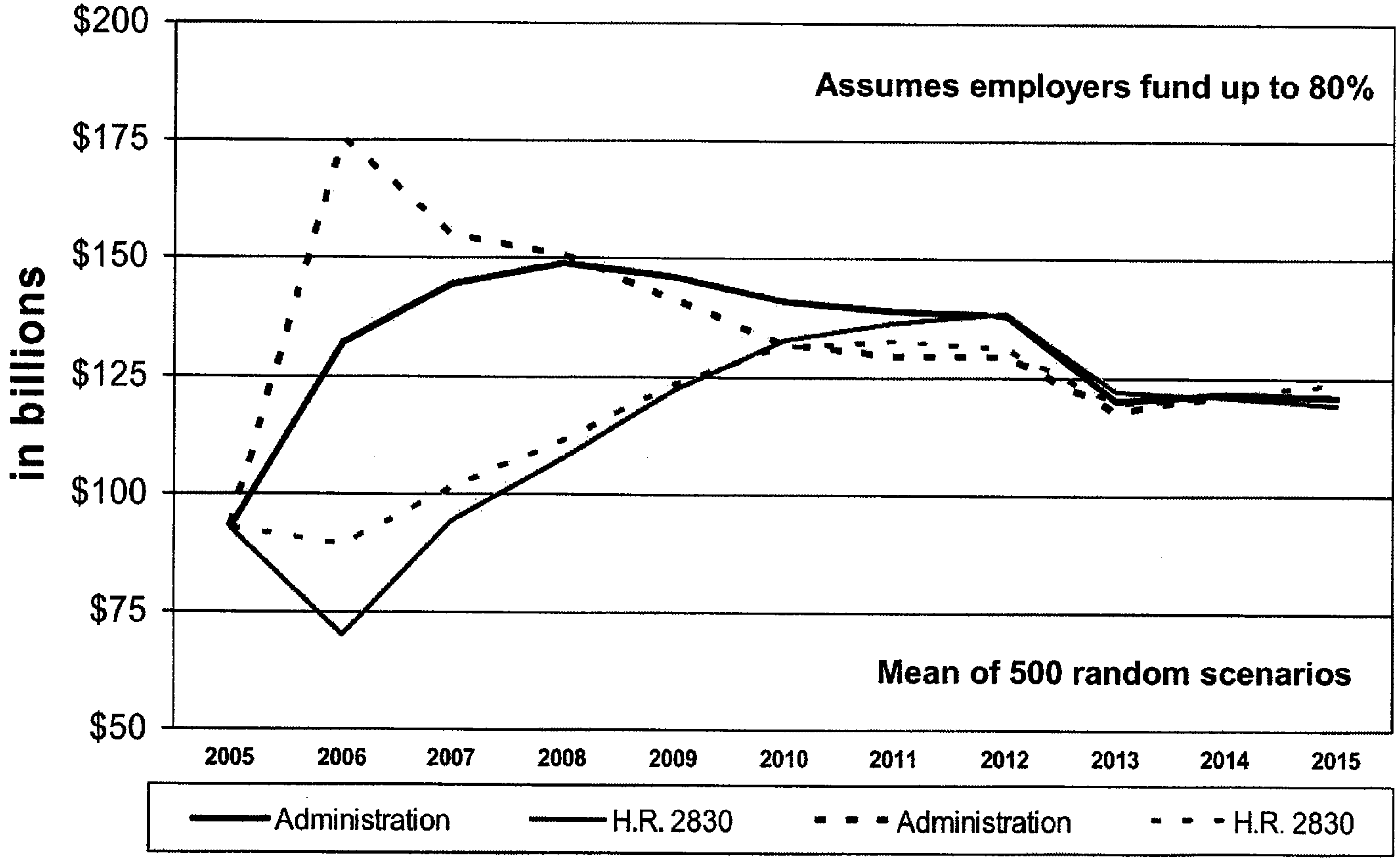
Present value of aggregate required contributions 2006-2015

$ in billions	25% percentile	75% percentile	Mean	Mean as a percentage of current law
Current Law	$645	$1,155	$913	100%
Administration's Proposal	$721	$1,242	$1,004	110%
Current Law - corporate bond forever	$601	$1,083	$849	93%
H.R. 2830	$596	$1,059	$844	92%
S. 1783	$573	$1,059	$842	92%

Projected claims assuming all employers contribute enough to avoid all benefit restrictions



Contributions needed to avoid all benefit restrictions



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