United States Senate
BUDGET COMMITTEE

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June 15, 2005

Opening Statement by Chairman Judd Gregg
Senate Budget Committee
Hearing on the Solvency of the
Pension Benefit Guaranty Corporation
June 15, 2005

The Committee will please come to order.

Good morning. Today we are pleased to welcome the Executive Director of the Pension Benefit Guaranty Corporation (PBGC), Bradley Belt, and the Director of the Congressional Budget Office (CBO), Douglas Holtz-Eakin.

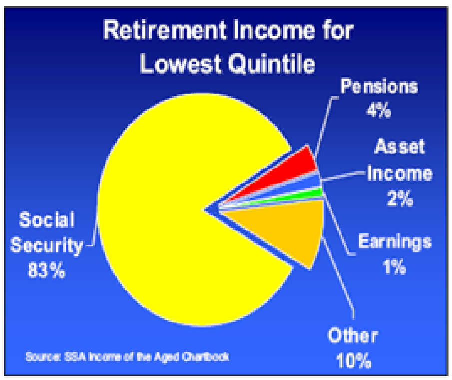
As a Budget Committee we must continue to investigate how to more accurately measure the extent of the fiscal problems facing the country in the long term and what we can do to improve the information that will shape our choices.

The President and the Congress have talked a lot about Social Security and its long-term financial challenges, which is critically important to do. The American public is finally tuning in to the reality that we are just one generation away from one leg of the three-legged retirement stool crumbling under the weight of unfunded promises.

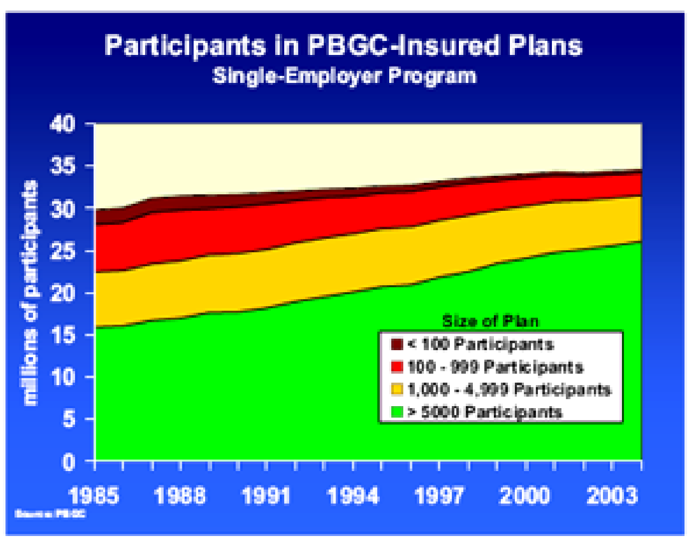
But there's another leg of the retirement stool that's already beginning to falter and set to collapse long before the Social Security program's shortfall affects a single retiree. I'm talking about the private sector defined benefit pension insurance system and defined benefit pension plans themselves.

Pension income represents an important proportion of retirement resources. While the largest share of income for retirees in the lowest quintile is Social Security benefits at 83%. For those in the top 20 percent, Pension Benefits (21%) represent essentially the same proportion as Social Security Benefits (20%).

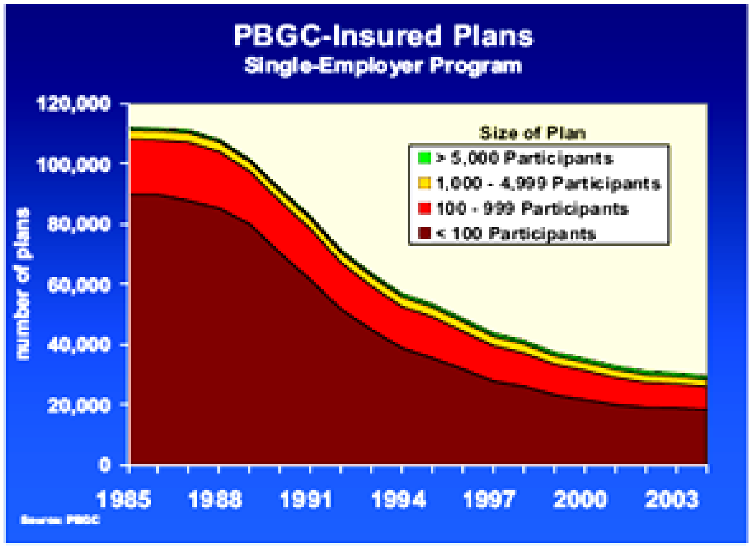
(See Chart 1 and Chart 2)



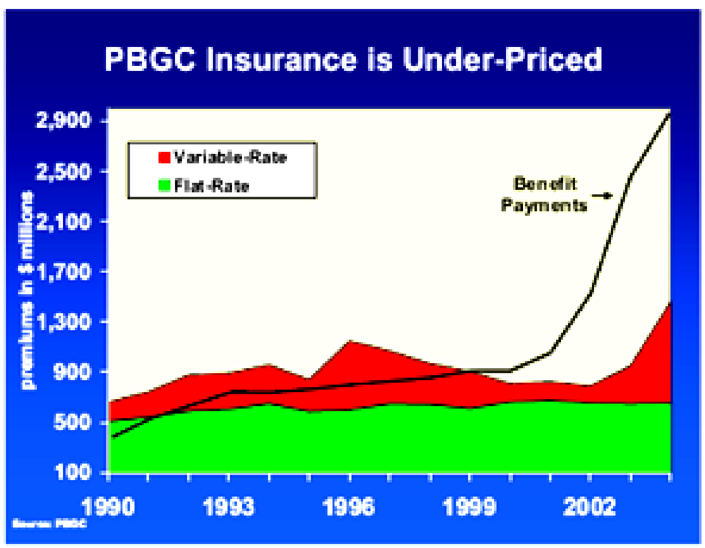
Although the number of "participants" in large plans has increased over the last two decades, (See Chart 3)



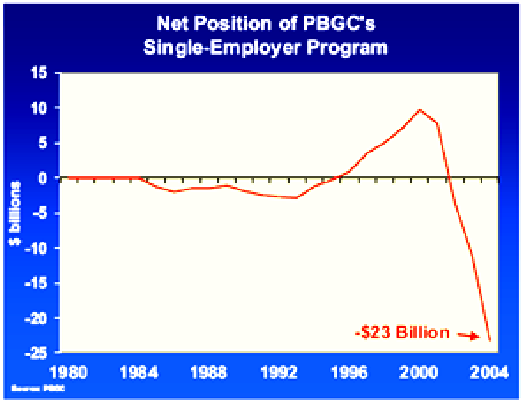
It is also true that the number of employers with confidence in the defined benefit pension system has plummeted. Under current law, the number of plans has dropped. (See Chart 4)

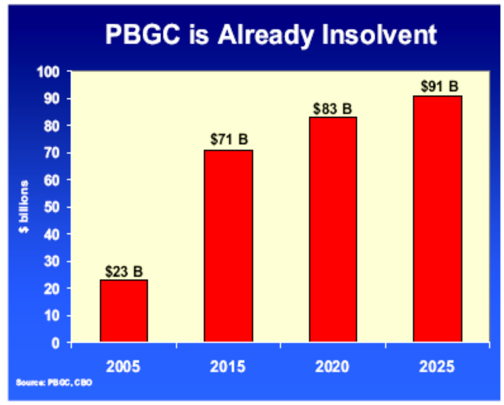


The defined benefit insurance program set up by Congress 30 years ago is broken and under-priced. (See Chart 5)



The defined benefit insurance program provides a false sense of retirement security to tens of millions of American workers and retirees. (See Chart 6 and Chart 7)





As part of the budget reconciliation process we assumed a significant update of the premium rate structure and annual premium receipts so that two of our colleagues on this committee (Senator Enzi and Senator Grassley)—who will be developing comprehensive pension reforms through their respective committees this year—will have the tools and the leverage to ensure the new receipts critical to the PBGC's solvency will be enacted into law.

By enacting comprehensive pension reform this year, the Congress can significantly lower the risk of long term insolvency of today's under funded defined benefit pension plans, and limit the need for future premium increases, while securing the retirement of tens of millions of American workers.

It is critically important that as a Budget Committee we shed light on the gravity of maintaining solvency of the PBGC and support the efforts of our colleagues as they work to repair the defined benefit pension system as a whole.

Today we will learn that <u>if we do nothing</u>, more defined benefit pension plan terminations <u>will</u> happen and this will be certain to leave millions of workers with only a fraction of the retirement income they were promised.

If we don't act now we will have even higher premiums for companies that remain in the system, significant economic losses affecting participants, beneficiaries and investors, significant pressure for a taxpayer bailout, and the likely demise of defined benefit pension system altogether.

All of this can be avoided if we act now.

Before we talk to the witnesses about the premium levels, reconciliation assumptions in the budget and the challenges facing PBGC's solvency, I'd like to make some observations for reform that I believe will be useful to our colleagues on the HELP and Finance Committees:

- ✓ We must get serious as a Congress and a nation about across-the-board retirement reform. It's time every American worker has a sense of ownership over his or her retirement income and the promises that have been made;

- ✓ To do so requires valid information about the security of his or her future retirement income, and current and relevant information to be able to make smart choices when options are available;

- ✓ Participants and beneficiaries must be notified in a timely way when their retirement income is in jeopardy;

- ✓ Workers must be assured that the law doesn't allow and even encourage hollow promises;

- ✓ Employers and union leaders should be prohibited from offering rank and file members benefit increases that cannot be paid for;

- ✓ The law must place a tangible price on all defined benefit plan under funding to limit the moral hazard of shifting risk to beneficiaries, the PBGC and other companies paying premiums;

- ✓ Accounting schemes that paper-over massive funding shortfalls must be outlawed; and

- ✓ Interest rate policies and funding targets must be straightforward to administer and be consistent with each plan's liability payout schedule.

All this is to say, the PBGC and unfunded benefit plans must return to solvency. The PBGC already has a serious deficit and a cash crisis looming with a clock that will toll 20 or 30 years sooner than what we expect in the Social Security system. (See Chart 7)

But for many retirees and beneficiaries, the clock has already rung…many have received a wakeup call and learned that not only their children's retirement but their own retirement is not as secure as they once thought.

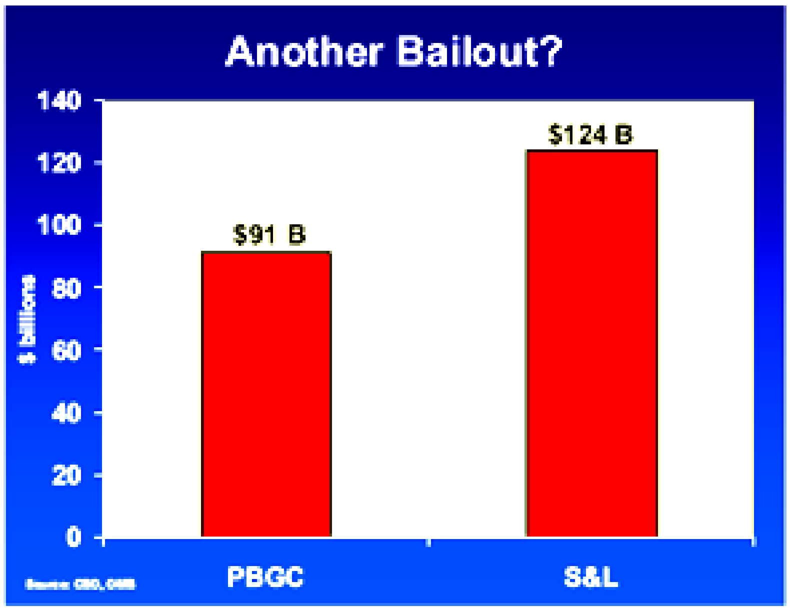
If we do nothing, our children—and even our neighbors will be overwhelmed by the cost of our inaction.

The 2006 Budget Resolution says such an outcome is unacceptable. The Congress must ensure that the PBGC remains self financing and bring pension funding rules and retirement security into the 21st Century in a way that is transparent to participants, beneficiaries and creditors while looking out for the interest of the American taxpayer.

Under current law, the remedies for this broken system do not include the full faith and credit of the U.S. government. The PBGC is only authorized to borrow up to $100 million from the U.S. Treasury—this amount pales in comparison to the projected shortfall and the amount that would be needed to pay out the current projected level of insured benefits. <u>If we do nothing</u>, employers left standing will pay even higher premiums than we proposed in the Budget Conference Report—and—–workers and retirees will be faced with significantly reduced insured benefits.

We must learn from the history of the Congress' handling of the Savings and Loan crisis: we cannot fix this by a piecemeal approach or play off one industry or parochial interest over another.

And, the most important thing we all should have learned is that the longer we wait the higher the cost of the remedy will become. (See Chart 8)



We're going to hear today that the PBGC deficit is projected to be at least $23 billion. Fortunately, PBGC payments are generally not made on a lump sum basis—unlike withdrawals on a Savings & Loan. Nevertheless, the pension insurance fund will first run short on cash in just under 5 years. It will take roughly another 15 years to liquidate its remaining assets to pay claims. But then it's all gone.

This means we have the opportunity to get it right—to resolve the pension funding crisis before the system implodes on itself and leaves retirees, workers, remaining employers, and investors in the lurch.

But we are in a shrinking window of opportunity—in fact this may be our last opportunity to fix the structural problems in the private defined benefit pension system.

Limiting exposure to the treasury from unnecessary taxpayer bailouts and forcing Congress to address known deficiencies in fiscal policy will help slow down the rate at which the federal government swallows an ever greater share of GDP.

Mr. Belt, we are pleased to have you here. You have worked tirelessly to direct the attention of Congress and this Committee towards the challenges faced by the PBGC to protect the retirement security of over 40 million American workers. We appreciate your efforts and recognize the challenges that you face on a daily basis, particularly when inheriting seriously under funded pension plans.

Mr. Holtz-Eakin, welcome…we are also very pleased to have you here today. I understand your office has developed a new model that provides estimates of the costs associated with defined benefit pension plans—it provides some ability to examine various premium rates and policy prescriptions as the Congress explores options to put the PBGC and defined benefit plans back on a track toward solvency. Your input will be invaluable. We look forward to hearing more about this work.

Senator Conrad, would you like to make an opening statement before we go to the witnesses?

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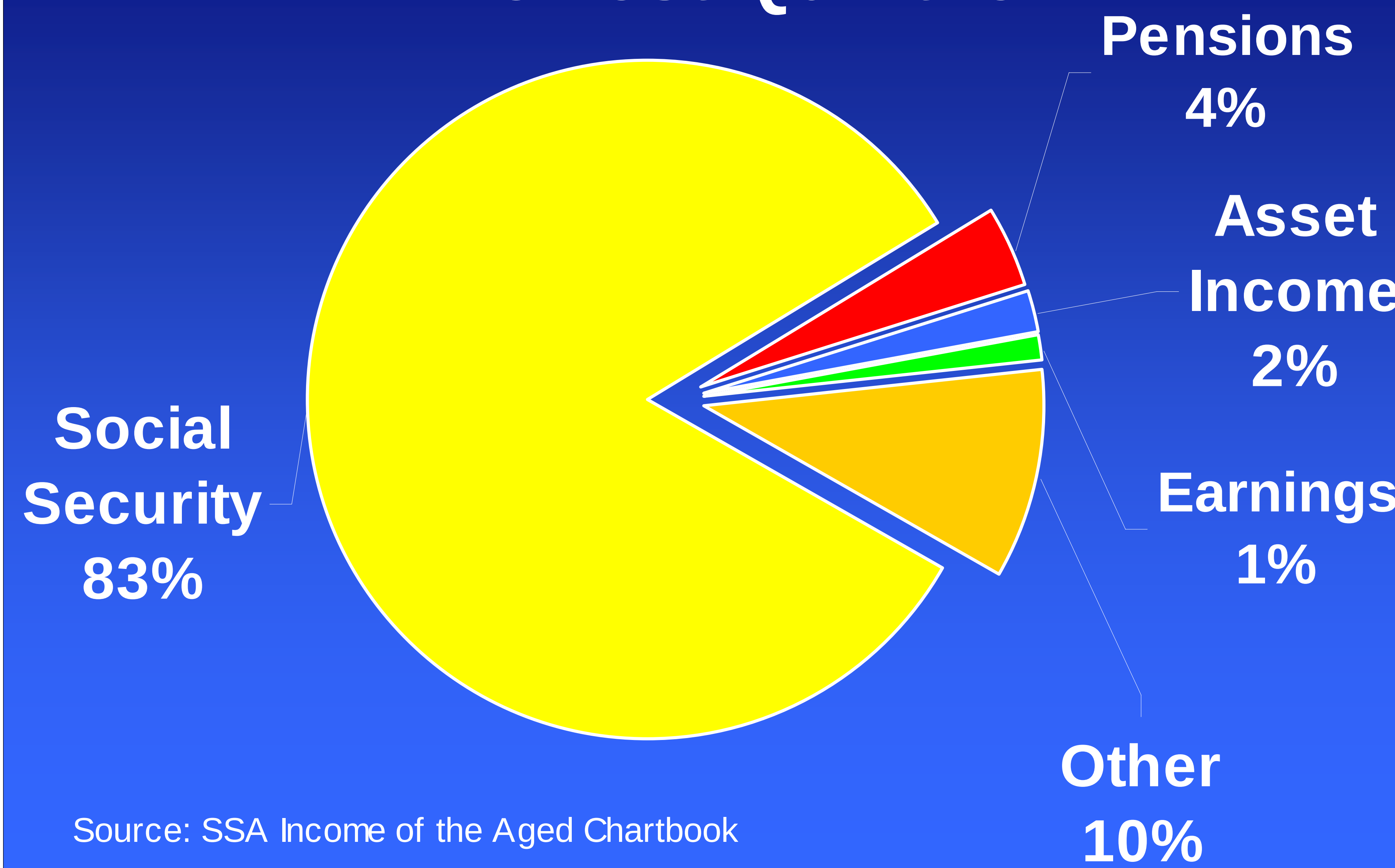
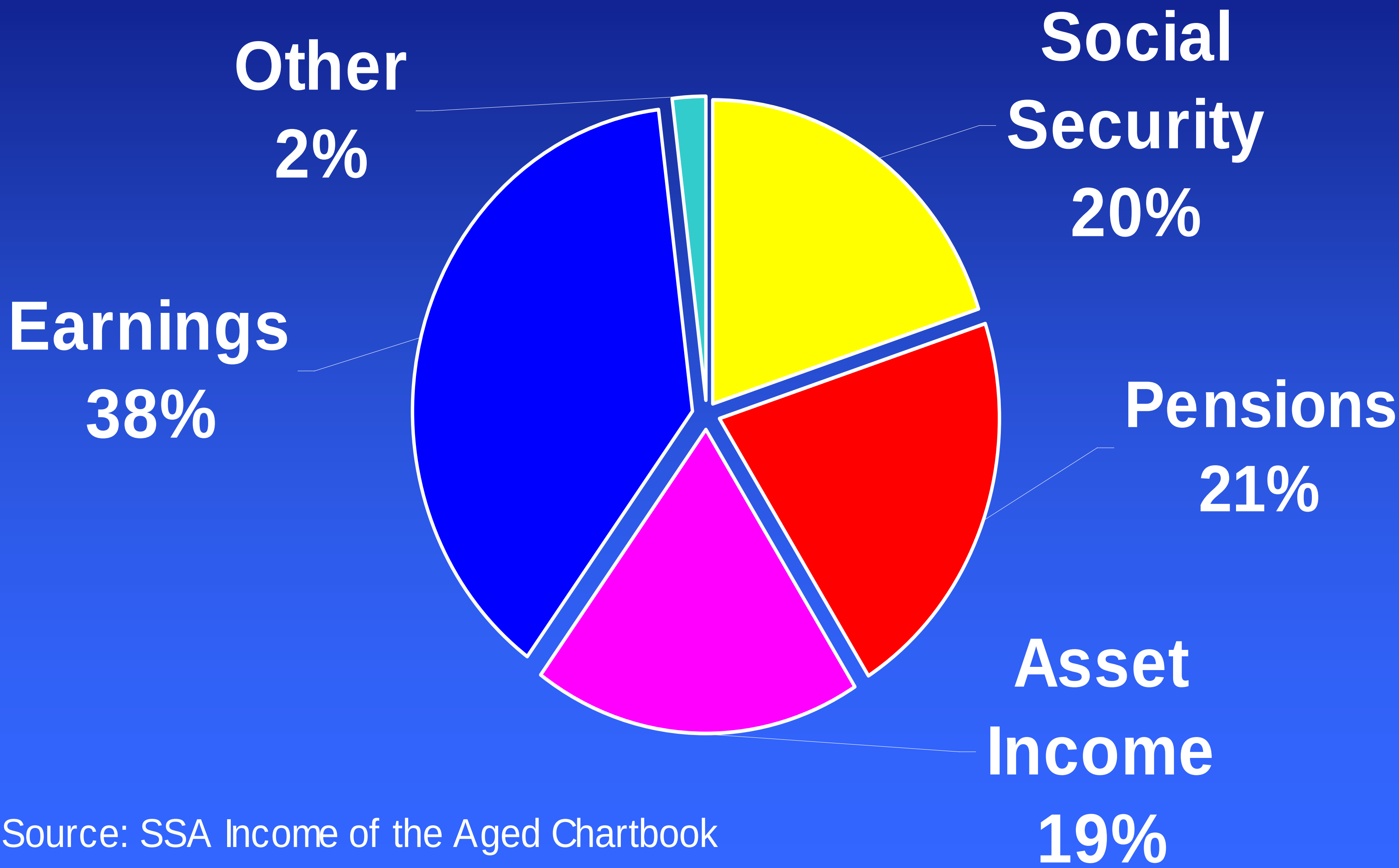
Retirement Income for Lowest Quintile



Source: SSA Income of the Aged Chartbook

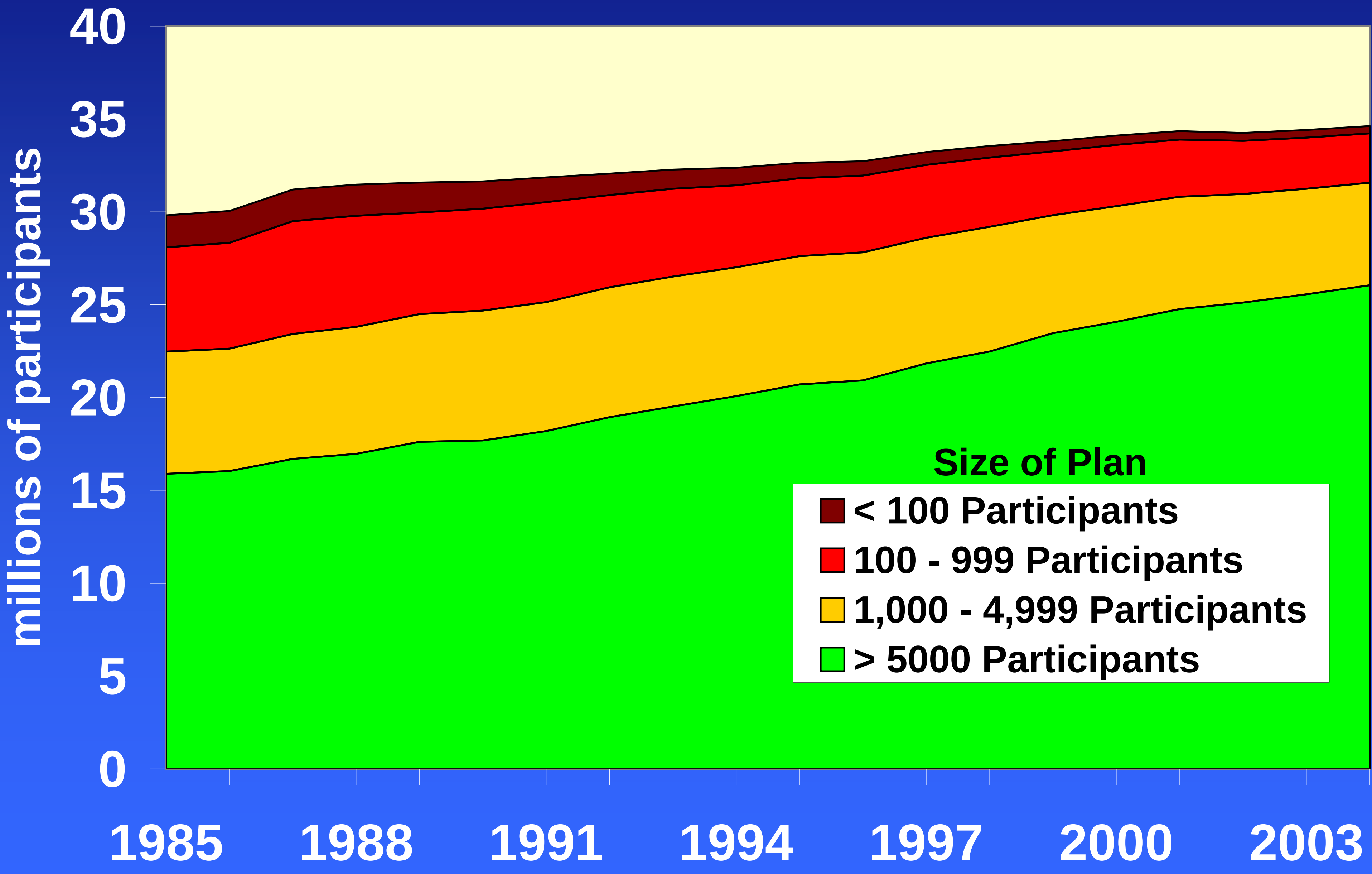
Retirement Income for Highest Quintile



Source: SSA Income of the Aged Chartbook

Participants in PBGC-Insured Plans

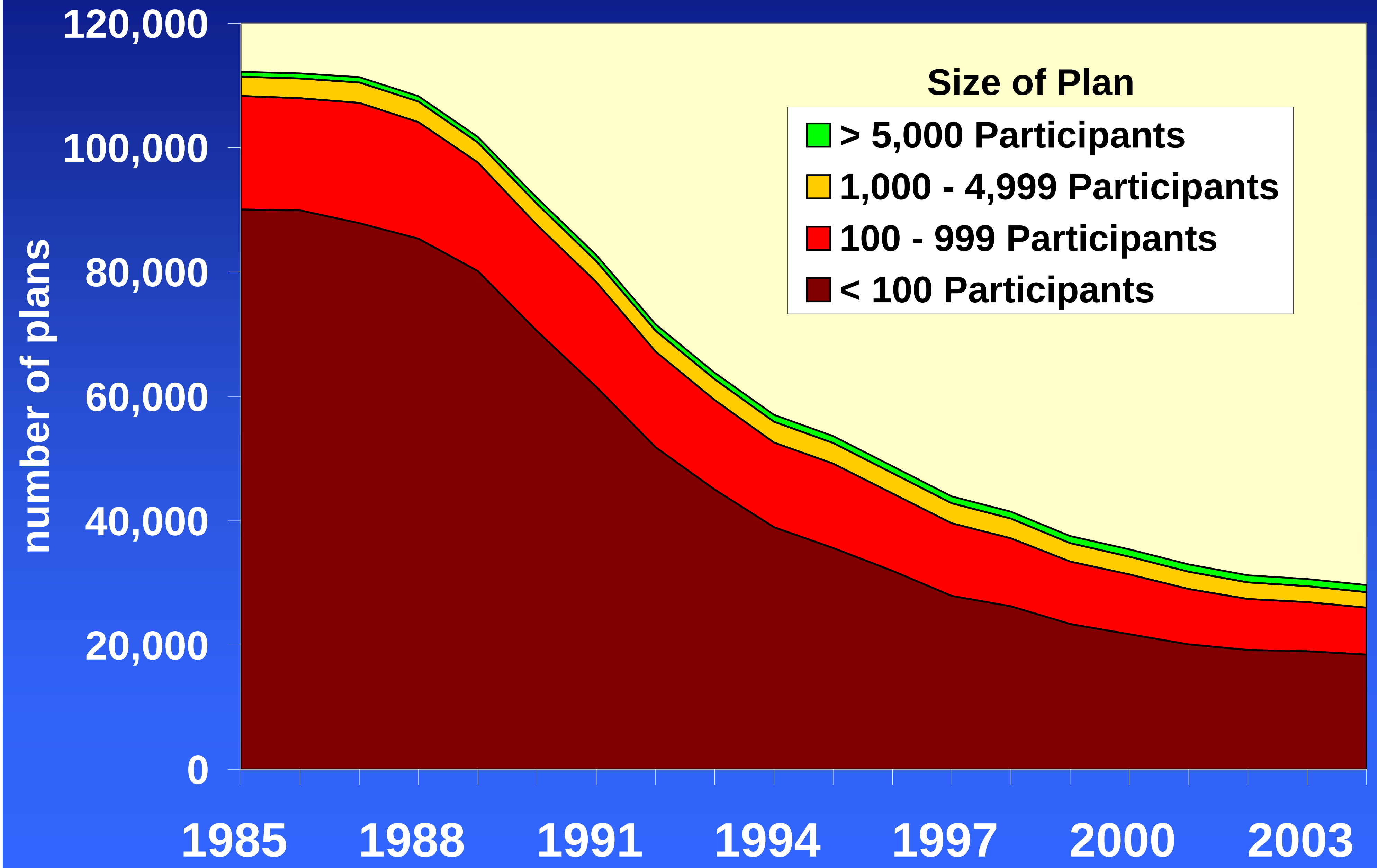
Single-Employer Program



Source: PBGC

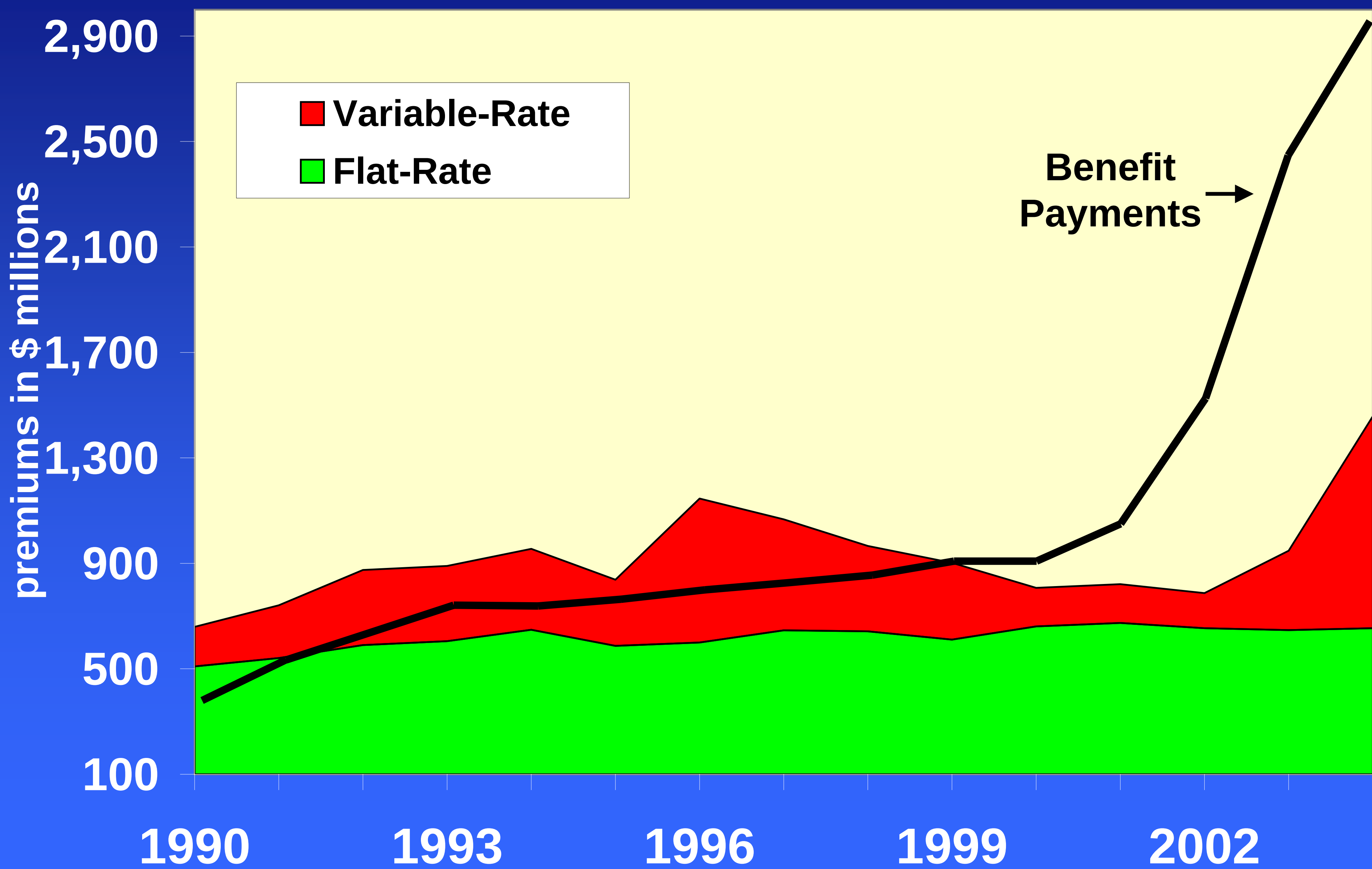
PBGC-Insured Plans

Single-Employer Program



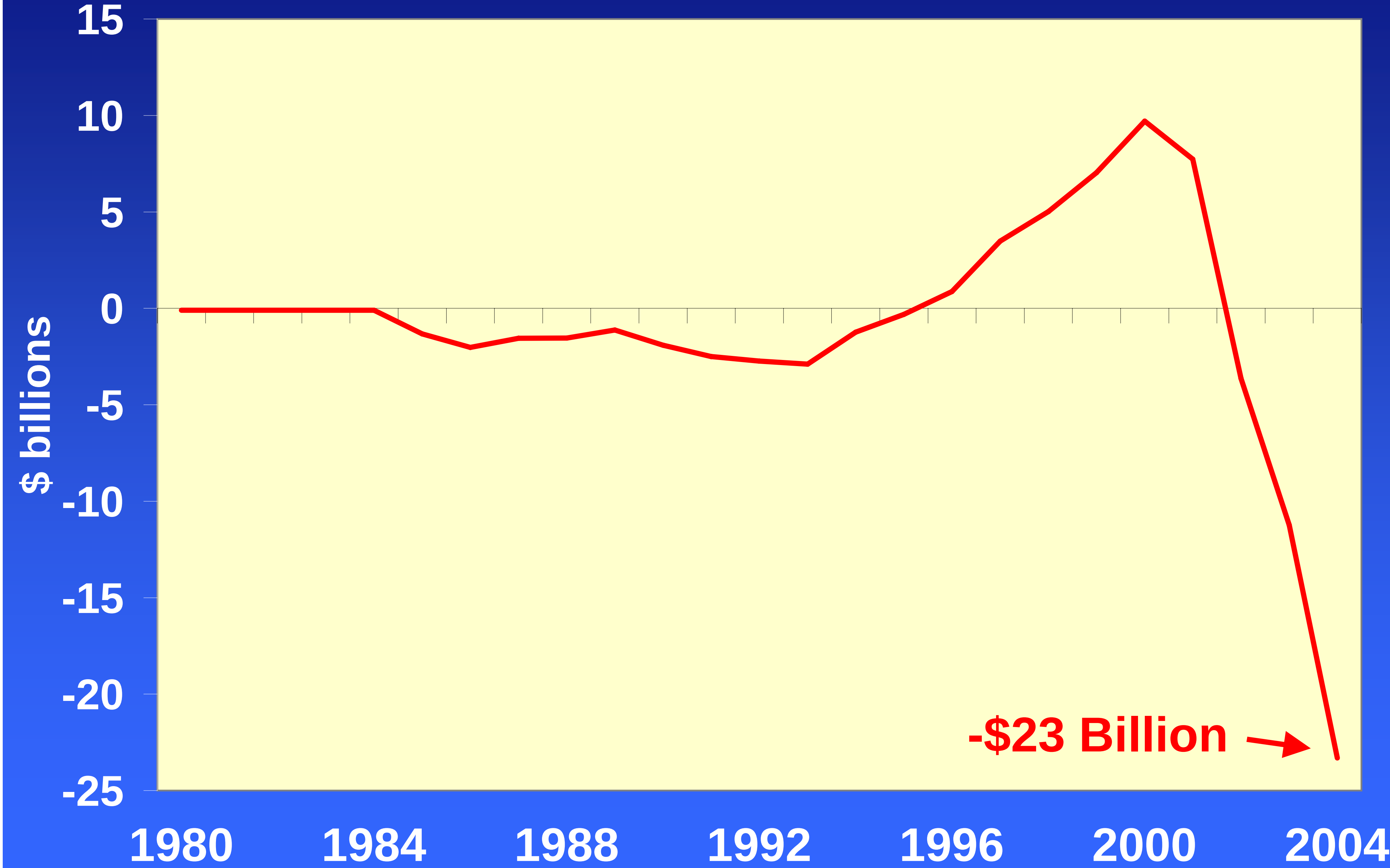
Source: PBGC

PBGC Insurance is Under-Priced



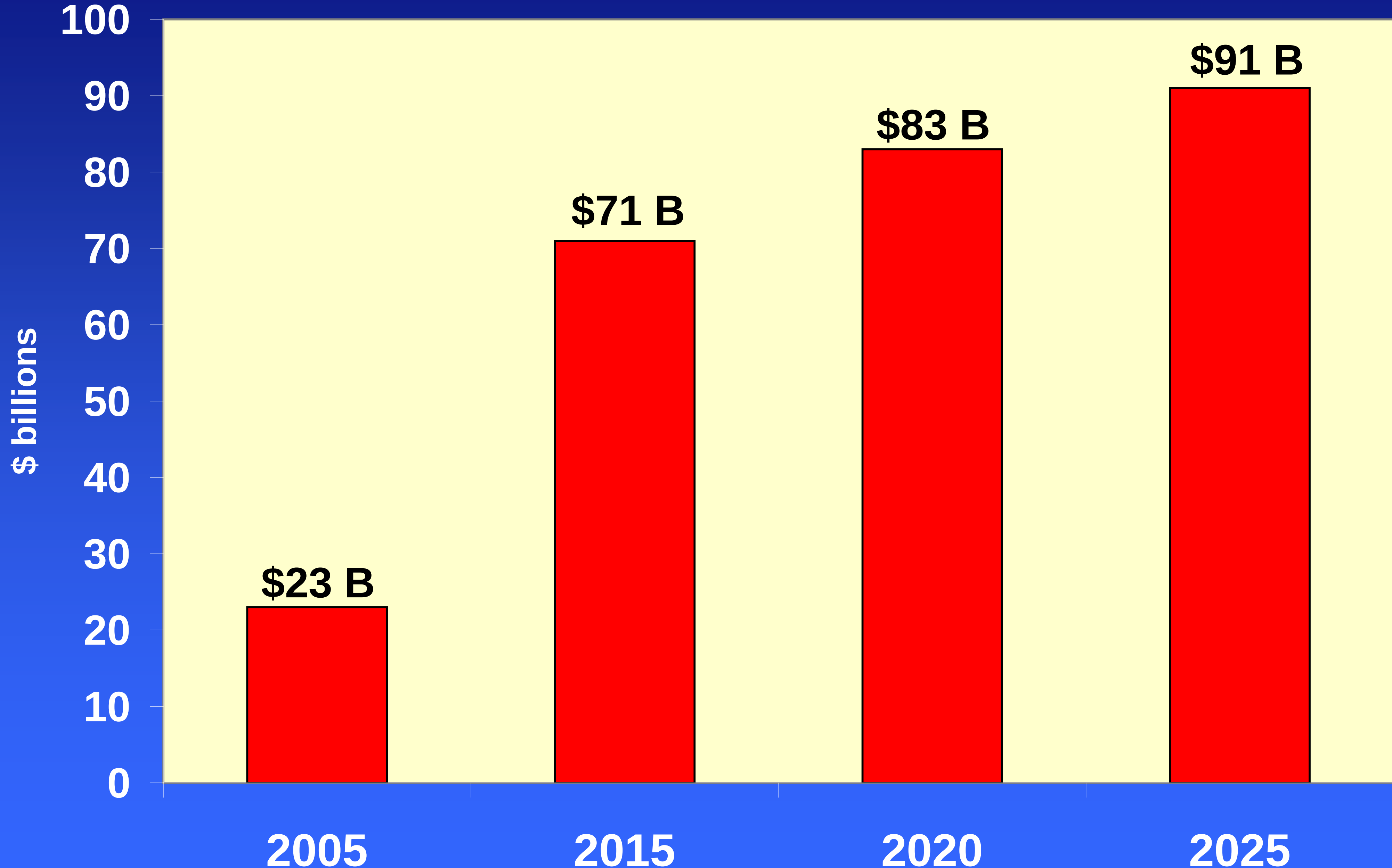
Source: PBGC

Net Position of PBGC's Single-Employer Program



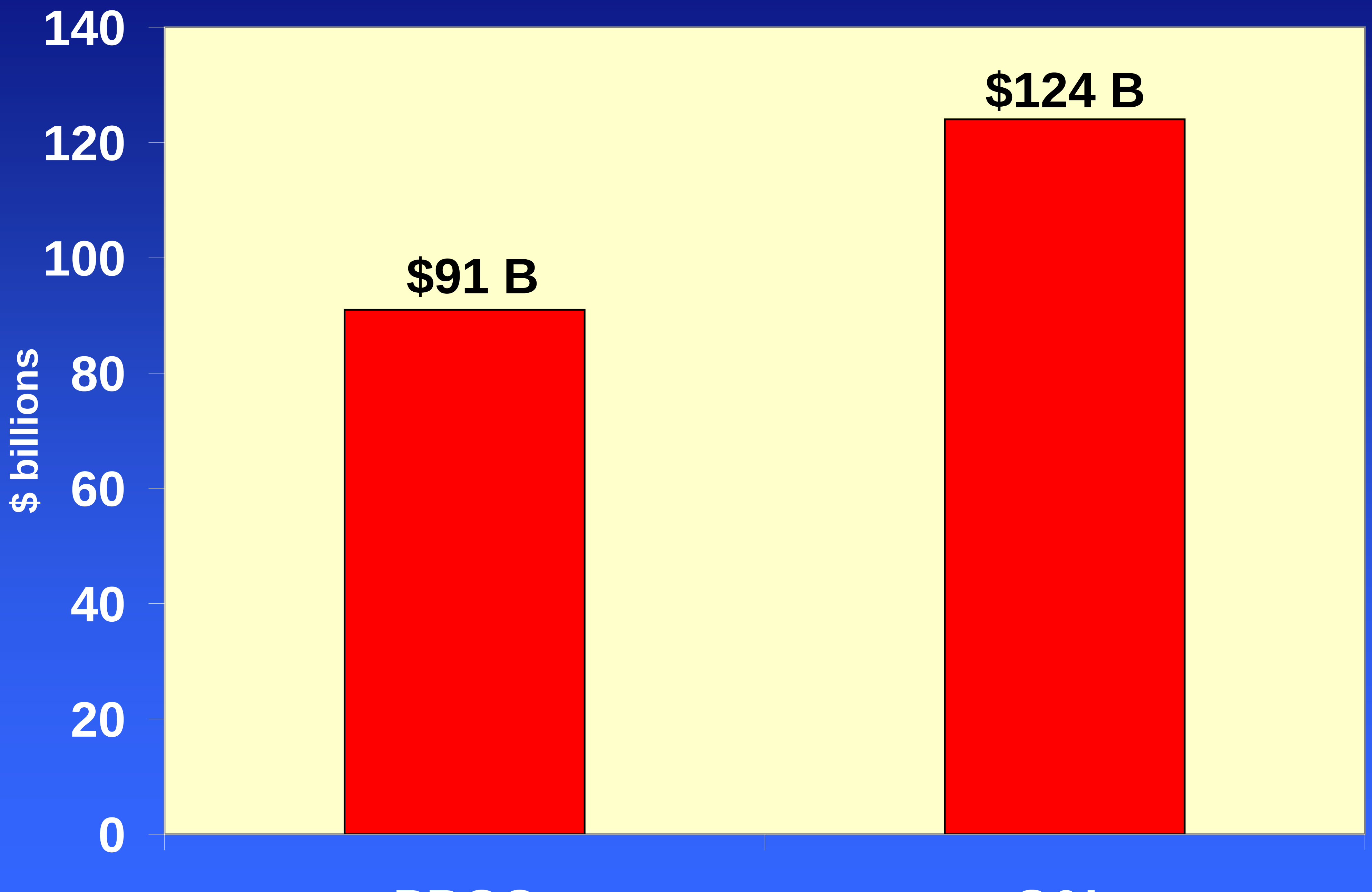
Source: PBGC

PBGC is Already Insolvent



Source: PBGC, CBO

Another Bailout?



Source: CBO, OMB