

November 16, 2005 (Senate)

STATEMENT OF ADMINISTRATION POLICY

S. 1783 - Pension Security and Transparency Act of 2005

(Sen. Grassley (R) IA and 3 cosponsors)

The Administration supports Senate passage of S. 1783, but believes that the reforms in this legislation remain inadequate with respect to the level of required plan contributions and the premiums that are needed to return the Pension Benefit Guaranty Corporation (PBGC) to solvency and avert a taxpayer bailout. The legislation must be strengthened, either during floor consideration or in conference, before being sent to the President for signature.

The Administration supports the bill's provisions to: amortize pension plan underfunding over a seven year period; value pension liabilities using a yield curve; enhance the transparency of pension plan financial information to workers; restrict the ability of plan sponsors with severely underfunded plans to make additional pension promises without paying for them; and set pension insurance premiums at a level that better recognizes the risks underfunded plans pose to workers and the PBGC.

The Administration believes that the bill should be amended to strengthen pension protections in several respects: unnecessary delays in establishing full funding targets should be eliminated; funding requirements should adequately reflect the current financial health of the plan sponsor; asset and liability values should be measured in an accurate manner that minimizes distortions caused by smoothing; liabilities should be computed using uniform mortality assumptions that reflect recent and projected improvements in future longevity; the use of credit balances should be eliminated; the bill's targeted funding relief for airlines (or other specific industries or companies) and special administrative workout programs should be eliminated; the flat-rate premium should be indexed to reflect wage growth; and variable-rate premiums should be based on total plan liabilities.

The Administration urges the Senate to develop a bill that the President can sign by strengthening the funding requirements during floor consideration and during conference.

The President's senior advisors will recommend a veto of S. 1783 if the net effect of the conference report is to weaken funding requirements for pension plans relative to current law.

Budget Estimates and Enforcement

This bill would affect direct spending and receipts. To sustain the economy's expansion, it is critical to exercise responsible restraint over Federal spending. The Budget Enforcement Act's pay-as-you-go requirements and discretionary spending caps expired on September 30, 2002. The President's FY 2006 Budget includes a proposal to extend the discretionary caps through 2010, a pay-as-you-go requirement for direct spending, and a new mechanism to control the

expansion of long-term unfunded obligations. CBO estimates the bill would save \$1 billion in FY 2006 and \$6 billion from FYs 2006-2010.

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