Private-Sector Retirement Savings Plans: What Does the Future Hold?
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Witness:
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Testimony

Chairman Enzi and Grassley, Ranking Members Kennedy and Baucus, I am pleased to provide the Senate Health, Employment and Labor Committee and the Senate Finance Committee with a formal submission summarizing the comments made in the open forum on March 15, 2005. These comments are submitted on behalf of my company, Smurfit-Stone Container Corporation.

Smurfit Stone Container Corporation (SSCC) is a leader in the packaging industry employing over 35,000 employees throughout North America with an $8 Billion revenue base. Our company's multiple Single Defined Benefit Plans cover approximately 25,000 active U.S. employees, 16,000 retirees and approximately 9,000 terminated vested employees in almost every state, including almost 400 employees in IA, 500 in Montana, 600 in Massachusetts. We also have approximately 4,000 in union multiemployer trust plans. Both my company's management and employees support retaining defined benefit plans as a central component to retirement security.

We cannot look to the future of pension plans without recognizing the three major components of any individual's retirement income stream. Our employees have the ability to retire with three separate income streams: defined benefit plan, 401K savings plan and social security. Given the current state of affairs on pension plans and their future viability, it is uncertain as to how long companies such as SSCC can continue significant contributions into a pension trust under some of the proposals before Congress.

For example, the Administration's proposal for reform of the Defined Benefit Plan system could more than double our cost of compliance with funding requirements, thus reducing cash flow available to continue reinvesting in our business which is required to remain competitive in today's global marketplace. As a mature industry with long-term defined benefit commitments and capital intensive investments, altering the funding rules can have a major impact.

Over the last four years we have invested almost $500 million in our pension fund and expect to make a similar investment over the next four years. We have a capital budget of between $225 and $275 million per year. The Administration's pension reform provisions will virtually eliminate our capital reinvestment capability.

The fundamental issue is that Americans, on their own don't save enough for the future. On a national average savings are trending toward depression–era levels around 1% of earnings. According to American Benefits Council the average person would have to save 7% of earnings over their career in order to amass enough savings for a stable retirement. Our company's 401K savings plan reflects the general savings trend of the country. For hourly employees only 1/3 contribute, even though they can get company-matching contributions.

So, if there is no evidence that people are motivated to save on their own for retirement, and companies are overly burdened with the type of proposals before Congress today, the future looks bleak. In time, companies will be forced to cease offering defined plans to an even greater extent than already reflected in the last ten years, as the number of pension plans have decreased by 60%.

This situation will inevitably harm Americans as defined benefit plans provided a source of income to individuals who may not have otherwise saved for retirement. Without this guaranteed income, Americans will become more reliant upon Social Security income as a primary source, thus further burdening a system that is under duress. This loss of income will have a severe impact on the quality of life of many Americans.

Smurfit Stone is a responsible company. Over the last five years, we have been between 90% and 98% funded in our pension plan and have followed existing law in providing the level of contributions in advance of requirements, despite strong market pressures slowing industry growth. Any new funding requirements should not be based upon the perceived financial strength or weakness of a plan sponsor. Funding requirements should be based upon quantitative targets and objectives consistently applied to all plan sponsors.

We are concerned that legitimate efforts to assure long-term sustainability and viability of the PBGC may in fact lead to a precipitous decline in affordability, reliability and predictability in maintaining defined benefit plans. Our 35,000 employees would be severely disadvantaged from receiving future benefits if the Administration's proposal were to pass as currently constructed.

Rather than helping secure the future of our defined benefit plan, assumptions embedded in the yield curve methodology would create unnecessary financial burdens that could lead to reduced future reliance on a predictable retirement income. An actuarially-sound replacement of the 30-year Treasury rate with a four-year weighted average of the long-term corporate bond rate would address these concerns.

Utilizing the four-year weighted average of the long-term corporate bond rate with some sort of smoothing would provide more predictability. In addition, this option is transparent and provides an accurate rate base, it steers a middle course between what is earned and what is owed. Imposing a 90-day smoothing concept into a yield curve places undue short-term pressures on companies for a long-term condition. The reason we encourage 30-year mortgages is to encourage purchasing of homes. If home owners had to pay a disproportionate amount of the cost up front, rather than over a longer term, fewer homes would be affordable. Likewise, we need to allow companies who are voluntarily providing long-term benefits to employees to spread a long-term cost over a longer period of time and not be subject to short-term volatility.

New proposals for funding targets, contribution requirements, deduction limits, benefit restrictions and increased premiums will in fact jeopardize our company's ability to continue to offer a defined benefit plan for new employees. Providing for predictability and reducing volatility in funding plans can be achieved with existing smoothing mechanisms for assets and interest rates.

Eliminating tax deductions for over funded plans is a short-term revenue benefit to the Treasury at the expense of longer-term opportunities to actually enhance the viability of pension funds while helping strengthening a company's position in the marketplace.

I am pleased to present these views and contribute to the debate so that we can find a means by which defined benefit plans can continue to be offered by companies for their employees with a degree of predictability and encouragement rather than penalties for being in a growth cycle, recessionary market or specific debt condition. Losing our defined benefit plans as a retirement benefit could seriously affect our ability to attract the talent necessary to successfully grow and prosper as a company.

Thank you for the consideration of these comments.