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Don’t Transfer Pension Risks to Taxpayers

January 28, 2004

Dear Colleague:

I commend to your attention the following Washington Post editorial about the pension system. Like many similar editorials from newspapers around the nation, it discusses issues that rarely make the news because of their thorniness and complexity. However, in editorial sections of newspapers across America there are few questions about what’s at stake. “Pension Perniciousness” and “Pension Shenanigans” are just two titles that have been used to describe the proposed transfer of risk to American taxpayers for private sector promises that cannot be fulfilled.

As you may remember, during the savings and loan crisis a dozen years ago, Congress gave many institutions unjustifiable latitude in funding loan reserve levels and put the American taxpayer at greater risk. This same scenario is being played out in the Senate pension funding bill, H.R. 3108. I urge you to join me in opposing huge transfers of risk to American taxpayers and in supporting a clean pension bill similar to the version that passed the House by a vote of 397-2. If your staff has further questions, please have them contact Kathleen Black of my staff.

Sincerely,

SAM JOHNSON
Member of Congress

The Washington Post
EDITORIAL

Pension Perniciousness

Monday, January 26, 2004; Page A18

NOT FOR THE first time, Congress has muscled up to an important problem, taken a good long look at it and resolved to make it worse. The problem is the vast hole in the nation's corporate pension schemes, and the perverse rules that helped create them. Congress's solution, championed in the Senate by an alliance of Sens. Charles E. Grassley (R-Iowa), Judd Gregg (R-N.H.), Max Baucus (D-Mont.) and Edward M. Kennedy (D-Mass.), is to <u>reward the hole-diggers with what amounts to a $16 billion loan from taxpayers</u> (emphasis added).

About one in five private-sector workers has a "defined-benefit" pension, the sort in which an employer guarantees a certain pension to its workers when they retire. To pay for these future benefits, employers are supposed to put sufficient money into a pension fund; the problem is they often don't. The gap between money put aside and money needed in the underfunded pension plans comes to an enormous $350 billion. When companies go bust, the Pension Benefit Guaranty Corp., the government-backed entity that insures pensions, gets saddled with plans that are in deficit. As a result, the PBGC itself has a deficit of $11.2 billion, which taxpayers may have to plug eventually. As more companies go bust, more of the $350 billion problem out there in the private sector will land on taxpayers' shoulders.

Why do companies run these pension deficits? Because regulations perversely encourage them to do so. If a firm gives workers a pay raise, it will have to pay for that immediately; if it gives them an increase in their pension, accounting rules allow it to defer the cost into the future. This deferral is especially tempting for cash-strapped companies -- which often means ones with a strong chance of going bust. Bethlehem Steel, for example, upped its pension promises and declared bankruptcy three years later. Wobbly companies that underfund their pensions would pay extra insurance premiums if the insurer were a private company. But the PBGC's rules do not allow it to price risk properly, adding a further incentive for shaky companies to hitch a free ride with the others.

There is, as Congress is demonstrating, no political constituency for fixing this problem. Weak companies with underfunded pensions lobby lawmakers for permission to continue their imprudence; labor leaders from those same firms lobby lawmakers in the same direction; nobody is on the other side. In the deal currently being cooked up, a group of hard-pressed companies led by the steel industry and the airlines will be given a special break for two years; if any of these firms goes bust in the meantime, the public will end up shouldering the deficits, which is why the congressional measure amounts to a taxpayer loan.

<u>Yet taxpayer support for people in defined-benefit pension plans is a perverse notion. Fully one in two private-</u>

<u>sector workers has no company pension plan whatever. Why should the less fortunate bail out the lucky ones</u>?(emphasis added)