STRENGTHENING AMERICANS' RETIREMENT SECURITY

Summary of the Democratic Alternative to H.R. 2830

December 15, 2005

H.R. 2830 does not solve the pension crisis facing millions of Americans and further jeopardizes the financial and retirement security of workers and retirees. Both the Congressional Budget Office and the Pension Benefit Guaranty Corporation have estimated that H.R. 2830 will lead to an increase in pension plan terminations and an increase in the PBGC's liabilities by billions of dollars (approximately $9 billion according to CBO). CIEBA, an employer association, has reported that enactment of H.R. 2830 will force many employers to freeze and terminate plans; a PBGC sample of large employers found that half would have to cut or freeze worker pensions. H.R. 2830's unfunded tax provisions increase the federal deficit by over $70 billion over 5 years.

The Democratic alternative protects workers' retirement security by:

Providing Employers with Pension Funding Stability. The Democratic substitute permits employers to value their pension liabilities by using the corporate bond interest rate in 2007 and 2008 and then returning to use of the 30-year Treasury bond interest rate. This allows Congress to evaluate the interest rate and make further reforms based on additional information. H.R. 2830 shifts to a complicated compilation of interest rates that will drive up costs and drive employers out of the pension system.

Stopping Companies from Dumping Their Unwanted Pension Promises onto the Government at the Expense of Employees. Too many employers, like United Airlines, are using the Bankruptcy Code to terminate underfunded pension plans and shift their liabilities onto the PBGC. Such terminations have imposed $23 billion in losses on the PBGC; in four terminations alone, they have resulted in $6 billion in pension losses to workers. The Democratic substitute would require companies to seek alternatives to termination before a pension plan could be terminated, permits the parties to restore a plan up to three years after a termination, and does not punish workers for employer funding decisions. It also requires companies to demonstrate to the court that the pension plan is, in fact, unaffordable before terminating workers' pensions. United Airline employees and retirees may use these provisions to challenge the recent and devastating plan terminations at their company. H.R. 2830 does nothing to prevent employers from terminating their defined benefit plans and imposes mandatory benefit cuts on workers when funding falls below arbitrary levels.

Protecting American, Continental, Delta, Northwest, and United Airlines' Employee Pensions. The Democratic substitute permits struggling airlines to freeze their pension plans and gives them up to 20 years to meet their pension obligations (just as the bipartisan Senate-passed bill does). It permits airline pilots who must retire at age 60 to receive unreduced PBGC pensions if their plan is terminated. And it permits the United Airline employees to demand proof in bankruptcy that their pension plans cannot be maintained. This provision will protect the pensions of American, Continental, Delta, and Northwest employees. H.R. 2830 does nothing to protect airline pensions.

Protecting Multi-Employer Pensions. Approximately 9 million workers are covered by multi-employer pension plans prevalent in the construction, food service, and transportation industries. These plans also are facing funding difficulties. The Democratic substitute would enable multi-employer pension plans to reorganize and agree to long term funding improvement plans to protect workers' pensions.

Protecting Pensions of Military, Public Sector and Disabled Individuals. The Democratic substitute exempts military employees from being subject to withdrawal penalties if they need early access to their retirement funds and includes combat pay for purposes of IRA eligibility. The substitute permits public safety officers to roll over lump sum distributions exempt from current law penalties. The substitute permits disabled individuals to establish deductible IRAs to save for their retirement.

Equitable Treatment of Workers and Executives. All too often workers' pensions and other benefits are cut at the same time that corporate executives are acting to protect their own benefits with lavish golden parachutes and other pension promises. The Democratic substitute would ensure that workers and executives are equally affected by pension benefit cuts. H.R. 2830 imposes cuts on workers when a plan is less than 80% funded, but only imposes minimal restrictions on executives if the plan is less than 60% funded.

Improving 401(k) Plans and Middle Class Retirement Savings Incentives. The Democratic substitute encourages employers to automatically enroll their employees in the company's 401(k) plans and expands the SAVER retirement savings tax credit for low and moderate savers. The Democratic substitute helps workers who do not have access to defined benefit plans. H.R. 2830 only protects new employees in 401(k) plans and does not expand the SAVER credit.

Paying for All Costs and Not Increasing the Federal Deficit. All costs of the Democratic substitute all fully paid for by a small surcharge on taxpayers earning over $1 million a year. The Democratic substitute does not increase the deficit or require federal borrowing. H.R. 2830 contains over $70 billion of tax deductions and changes that are not paid for and that increase the federal deficit.