

**Statement of Mr. Ronald Peterson, President, Johns Hopkins Health System and Executive Vice
President of Johns Hopkins Medicine**

Before the Committee on Health, Education, Labor and Pensions

United States Senate

On Thursday, October 29, 2009

For the hearing titled "Pensions in Peril: Helping Workers Preserve Retirement Security through a
Recession"

Good Morning. I am Ronald R. Peterson, President of the Johns Hopkins Health System and Executive Vice President of Johns Hopkins Medicine. Johns Hopkins Medicine is the formal alliance between The Johns Hopkins University School of Medicine and Johns Hopkins Health System. I am here today on behalf of the Johns Hopkins Health System, Johns Hopkins University and Johns Hopkins Medicine. Collectively, Johns Hopkins institutions constitute the largest private sector employer in Maryland, with 49,000 employees.

Chairman Harkin and Ranking Member Enzi, thank you for the opportunity to testify before this committee. You are to be commended for holding this important hearing to help workers preserve their retirement security in this time of recession. Retirement security is critically important to Johns Hopkins and its employees. We are a 100+ year old institution with many long-term employees who rely on us for their retirement security. This issue is also important to every company, every employee, and every community across the United States, because it is more than a pension issue. We view this as an economic recovery issue and a jobs issue. You will hear that with a few regulatory changes and no government money, you can save thousands of jobs.

First, let me assure you, that Johns Hopkins will meet its obligations to our defined benefit participants. All of us have been hit by the extraordinary market losses of 2008, but we are not here asking for a bailout, nor for tax payer assistance to right our pension plans. Rather, we are here to ask today for temporary relief from Congress that can be accomplished through pension funding rule changes allowing us to manage our recent plan losses through this unprecedented market downturn. With a few changes, we can continue to grow our institutions and create jobs while meeting our pension obligations. Remember that health care is one of the few sectors where jobs have continued to grow.

The Pension Protection Act ("PPA") of 2006 accelerated pension funding requirements for defined benefit pension plan sponsors. These new requirements went into effect in 2008, the year the financial crisis began. We fundamentally support the goals of the PPA to increase the funding levels of defined benefit pension plans over time. But, the rules were enacted in a more robust economy. By the times the rules went into effect, the plans had taken losses in the market and interest rates dropped, creating a perfect storm to cause dramatic, unplanned increases in our pension funding obligations.

The Worker, Retiree and Employer Recovery Act enacted last year by Congress provided temporary relief to some, but not all, companies. We appreciate, as well, the additional relief through regulatory guidance provided by the Treasury Department that has helped many companies for 2009. But these changes are not enough.

The stock market has not fully recovered and interest rates remain low. As a result, companies across the country are facing staggering funding obligations for 2010 and beyond, which will divert funds from other purposes, including jobs. This issue is time sensitive. Under the PPA, the vast majority of plan sponsors' funding obligations will be locked in on January 1, 2010, regardless of what happens in the economy for the remainder of the year.

Hopkins' Background on Pensions

The Johns Hopkins University and Johns Hopkins Health System sponsor five active Defined Benefit pension plans that provide benefits for nearly 32,000 current and former employees.

Johns Hopkins' intent is to maintain these plans and add participants in the future.

We take a long-term approach to pension funding. All of our plans were well funded (95% or better) before the recession, based on Johns Hopkins' prudent investment policy and its commitment to secure benefits. In fact, Johns Hopkins paid no variable rate premiums to the Pension Benefit Guarantee Corporation last year.

Impact of 2008-2009 Recession on Plan Funding

We view the current recessionary environment as a unique event. The reality is that we are now behind in our capital and cash flow forecasts as they relate to meeting the funding requirements of the Pension Protection Act.

Johns Hopkins is currently expanding and improving its facilities to provide for enhanced care to the patients we serve from Maryland and throughout the world. As a product of that expansion, we are creating more jobs in the local market. Like other not-for-profit institutions, we are facing tough choices which could force us to scale back on much needed programs which benefit humankind in order to redirect those funds into the pension trusts. In the absence of pension reform, we could be faced with the undesirable choice to reduce benefits, or eliminate jobs.

During fiscal year '09, our plans have suffered severe asset losses, 24% of the portfolio (or \$223 million) due the performance of the stock market. Thus our funded status has deteriorated to as low as 70% for one of our plans. Coupled with the low level of interest rates, these asset losses will require significant increases in cash funding over the next eight years — \$291 million— a jump of 60% in the amount we had forecasted during the Summer of 2008.

We must undertake steps now to reserve cash for this very large liability. We and the many other for-profit and non-profits companies in a similar position will have to make decisions in the next few months in order to be ready to satisfy the dramatically increased funding obligation we expect to owe. Because this obligation is required by law, we will be forced to divert resources from patient care services and from job retention and creation. Every \$10 million in incremental pension funding equates to salaries for 125 nurses.

This obligation also affects the community in which Johns Hopkins resides. With tremendous pressure on cash requirements for operations, job-generating construction projects that have not begun will be put on hold and much needed patient care equipment replenishment programs will be curtailed as well.

Pension Reform Position

Johns Hopkins encourages Congress to take additional steps to strengthen defined benefit pension plans given the impact of the recession, specifically:

- Lengthen the amortization period for paying down pension deficits from seven years to 15 years for the 2008 losses. This would reduce the \$291 million funding requirement by \$46 million over the next eight years;
- For plans below an 80% funded level, remove restrictions on accelerated payments except the lump sum payments;
- Return to a policy that permits the asset smoothing corridor to be 20% of the fair market value of assets; and
- Return to a 48-month asset smoothing period to allow for more prudent forecasts.

We encourage Congress to apply pension relief equally to all plan sponsors. As a reference point, we would support the concepts expressed by Representative Pomeroy in his discussion draft on this issue.

Conclusion

The Johns Hopkins University opened in 1876. After more than 130 years, Johns Hopkins remains a world leader in both teaching and research. Preeminent professors mentor top students in the arts and music, the humanities, the social and natural sciences, engineering, international studies, education, business and the health professions. The Johns Hopkins Hospital opened its doors in 1889 and soon thereafter established a symbiotic relationship with The Johns Hopkins University School of Medicine which opened in 1893. For more than a century, Johns Hopkins Medicine has been recognized as a world leader in patient care, medical research and teaching.

Today, Johns Hopkins Medicine is known for its excellent faculty, nurses and staff specializing in every aspect of medical care. Johns Hopkins Medicine includes four acute-care hospitals and programs for local, national and international patient activities. In the past decade, our environment has changed drastically, particularly in the financing of patient care. We responded by moving into the community, establishing ambulatory care centers, affiliating with other hospitals in order to provide a broader spectrum of patient care and moving toward the development of an integrated patient care delivery system. At the same time, we have added to the economy and jobs throughout Maryland.

Due to the recent unusual market conditions, Johns Hopkins and other defined benefit plan sponsors will be faced with significantly larger funding requirements. As the economy is beginning to recover, job growth will be impeded as employers such as Johns Hopkins will have to limit new program development and divert these resources to our pension trust. Ironically, this will further exacerbate access to health care at a time our country needs meaningful health care reform. Passage of these four modifications to the pension funding rules will support job growth and provide employers with the resources they need to innovate and compete in a global market. Again, this can be done without a penny from Congress.

Thank you very much for the opportunity to testify today. I look forward to answering your questions.