When a Taxpayer Bailout Really Is Not An Option

By Senator Mike Enzi

The Washington Post's editorial of May 13, 2005 “Who Pays For Pensions,” paints a bleak, black and white backdrop behind he drama of pension reform, casting the Bush Administration in the white hat and Congress in the black. The Post’s rough cut on this saga seems to suggest that Congress is wrong not to jack up premiums for pension plans by more than $18 billion and then layer on top of that much higher pension funding rules, costing plan sponsors even more money. The truth though is that pension reform cannot be cast in black and white: reality here lies somewhere in between.

Changing economies, punitive funding rules, and pension tax requirements have been driving healthy companies out of sponsoring pension plans for two decades. In 1985 there were more than 112,000 plans in existence. There are now barely 29,500. Where did those 83,000 plans go? The vast majority of them terminated with sufficient or more than sufficient assets to pay all the benefits they owed to their workers. They did not end up on the Pension Benefit Guaranty Corporation’s (PBGC) doorstep. In fact, the recent woes of the pension system have come from sponsors in declining, cyclical or heavily-unionized industries.

In developing pension legislation, Congress needs to be mindful of the tipping point between therapeutic and excessive funding requirements as well as the delicate balance between tolerable pension insurance premium levels that protect retirees and burdensome levels that drive sponsors out of the system.

Risky therapies, such as mega-doses of radiation, are never advisable for weakened patients, especially when other cures are available. Likewise, we cannot accept the argument that some of patients are going to die anyway, so one remedy should be applied to all without regard to the consequences. Mindful of these lessons, Congress acknowledges that pension insurance premiums must be increased, but $18 billion is still too high an increase. It is certainly too high an increase to impose over five years.

Congress also recognizes that the funding rules need to be upgraded. But we also have observed that catastrophic changes to pension rules tend to have catastrophic effects on plan sponsorship. The Budget Reconciliation Act in 1987 dramatically increased funding and imposed the first risk-based premium. By 1989, plan terminations accelerated drastically. In 1994, both funding and pension insurance taxes were escalated again but the pace of terminations increased too.

Readers of the Business Section of The Washington Post will recall the recent news of pension plan freezes. The plans affected are sponsored by household-name companies that all of us know: Sears, Rockwell-Collins, Motorola, Xerox, Ford, GE, IBM and the list goes on and on. These are the healthy plans that have played by the rules and that easily pay the PBGC premiums. We cannot afford to push more healthy sponsors out of the system. If Congress pushes too hard, that is precisely what will happen.

On one other critical point to this drama, the Post again was wrong: The taxpayers are NOT on the hook for the PBGC or its deficit. The only way the American taxpayer would be faced with paying the debts of underfunded pension plans or the debts of the agency would be if Congress passed a new law to make that happen. The media and the PBGC may promote a taxpayer bailout as the only solution to this problem, but there simply is no support for such a proposal – either in Congress or among the general public. Our guiding principle here is that a taxpayer bailout is not an option.

Who is on the hook to pay the PBGC's deficit? The companies that remain in the defined benefit pension plan system. They and their employees ultimately will bear the costs of mismanagement or underfunding of other plans in the system - and it is certain that they do not like it one bit.

The Washington Post, the Bush Administration, and every member of Congress are all right on one point – pension reform is vitally important and must be enacted as soon as possible to protect the pensions of millions of Americans, to ensure the stability of the defined benefit system, and to restore the solvency of the insurance safety net.

That said, the details of pension reform are complex, painful, and far from obvious. That said, the details of pension reform are complex, painful, and far from obvious. Congress can and will deal with the pension funding and pension insurance problems facing the PBGC. More importantly, we can and will fix the system without tearing it down.

Senator Enzi, a Wyoming Republican, is Chairman of the Health, Education, Labor and Pensions Committee; Senator Grassley, a Republican, is Chairman of the Finance Committee.