U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

http://finance.senate.gov

For Immediate Release
Tuesday, July 26, 2005

Grassley Pension Protection, Reform Bill Advances Through Committee

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today received unanimous committee approval of his bipartisan legislation to better protect workers' pensions from corporate malfeasance and shore up the nation's ailing pension system.

"The fragile state of our nation's pension plans is catching the attention of Americans everywhere," Grassley said. "Not long ago, workers used to be fairly sure of a good pension plan. That's not the case anymore. There are a lot of reasons for that, some within Congress' control and some not in our control. We need to fix the problems within our control. Today we've taken a big step in the right direction."

Grassley's bill, the *National Employee Savings and Trust Equity Guarantee (NESTEG) Act of 2005*, developed with Sen. Max Baucus, ranking member, received unanimous committee approval on a voice vote. The measure contains a comprehensive package of reforms to protect workers' pensions from corporate malfeasance. Grassley developed the reforms after the Enron and other corporate scandals a few years ago and has worked to enact them since. Key protection measures include:

- new diversification rights regarding company stock in pension plans;
- new disclosure for transaction suspension periods, or black-outs, when investment rights are suspended or reduced, and a requirement that plan managers are financially liable for any losses during black-outs if they don't comply with the disclosure requirements;
- and new disclosure of plan financial status through periodic benefit statements and retirement savings information.

"We need to protect workers from bad actors and give them more, timely knowledge about their pension funding status," Grassley said.

Grassley's measure also would require businesses to better fund their pensions and contribute more to the federal Pension Benefit Guaranty Corp., which insures pension plans. The agency has a $23.5 billion deficit because weak pension funding rules have allowed some companies to under-fund their pensions and turn them over to the PBGC. Meanwhile, PBGC premiums have been too low to finance the agency's pension obligations. Grassley's bill:

- increases the premiums paid to the PBGC from $19 per worker each year to $30 for all

PBGC-covered pension plans;

- and requires businesses to use a bond yield curve in pension funding calculations. Under current law, businesses temporarily can use rates developed from a blend of corporate bonds in making pension calculations. That has led to serious under-funding. In June, the PBGC reported that the pensions it covers are underfunded by $354 billion – on average, pension plans have $7 invested for every $10 in pension benefits promised. Grassley said the yield curve will present a more accurate picture of pension obligations.

"One reason that Americans have lost confidence in the pension system is they've lost confidence in the way those plans are funded," Grassley said. "They've seen the tremendous damage left in the wake of United Airline's massive pension default, and they know United was only following the rules. Companies that fund their pension plans well also have lost confidence in the pension system. They know that when a financially troubled company defaults on its pension, the other companies that pay PBGC premiums have to pick up the losses.

"That's not fair, and it's not right. Thankfully, most companies take responsibility for making sure their pension plans are fully funded, but we can't let a few bad apples spoil the whole barrel. The PBGC can't sustain many more hits to its bottom line, and the potential for a taxpayer-funded bailout is growing every day we do nothing."

Grassley said some observers have complained that reforming the rules will make companies abandon their pension plans. "It's understandable that businesses don't want to shell out more money to fund their pensions," Grassley said. "Their goal is to make money, not spend it. But at the same time, everyone plays a part in pension income security. This bill treats both companies and workers fairly. It's a reasonable approach that's meant to prevent a real crisis and bring pension rules into the 21st Century."

More details of the Grassley bill are available at http://www.house.gov/jct/.

-30-