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RETIREMENT PLANNING

# House Backs Cut In Pension Outlays Over Two Years

By JOHN D. MCKINNON
Staff Reporter of THE WALL STREET JOURNAL

**PENSION PAIN**

- **Page One:** Warning of Pension-Plan Shortfall Raises Pressure for Financial Fix[1]
09/05/03
- **Capital:** The Politics of Pension Promises[2]
07/17/03

WASHINGTON -- The House voted to allow businesses to contribute $26 billion less to corporate pension plans over the next two years.

The approval marks a victory for companies with defined-benefit pension plans, those that promise a fixed benefit to retirees no matter what happens to the stock market. Without action, many would have to make large contributions to those plans.

But the vote also was a victory of sorts for the Treasury Department, which successfully fought business efforts to make the proposed relief permanent. The Bush administration wants to apply a more stringent formula that would, among other things, tie required pension contributions to the age of a company's work force and limit financially weak companies from making new pension promises.

That sparked resistance among business and labor groups alike, because it could prompt many companies -- particularly those in mature industries -- to contribute more, hurting their bottom lines. It also could tie unions' hands in bargaining.

Wednesday's 397-2 vote to alter a federal formula for just two more years would force Congress to revisit the issue soon. Without tougher rules in the long run, the Bush administration warns, many more pension plans could collapse, sticking the federal government with the tab.

The Pension Benefit Guaranty Corp., which backstops the pensions of 44 million people in the U.S., estimates that the corporate defined-benefit system is now underfunded by as much as $400 billion. The agency says about $80 billion of those promises are in pension plans in such weak condition that the obligations may have to be assumed by the PBGC.

The compromise House measure now goes to a divided Senate. The Senate Finance Committee approved a more ambitious measure that offers companies three years of relief, but then would put in place a tougher formula permanently. That now seems unlikely to become law.

But some senators also favor extra relief for cash-strapped airlines and other businesses. Others want to attach contentious measures that would enhance protection for workers whose 401(k) plans are invested in their companies' shares or measures that would lift limits on contributions to retirement-savings accounts.

For that reason, the pension bill is likely to linger for several more weeks and emerge as a last-minute measure near the end of the session. While it is still early to predict, some congressional aides say the basic temporary relief that the House passed Wednesday is a likely final outcome.

The Bush administration issued a statement Wednesday urging Congress not to add special relief aimed at helping airlines or other troubled industries. The White House termed the House bill "an important first step toward providing a permanent replacement for the interest rate now used" in calculating pension liabilities.

The immediate issue is a federal law that requires companies to use the rate on 30-year Treasury bonds to estimate pension liabilities; companies and unions argue that this rate is now so low that it inappropriately inflates pension liabilities. In March 2002, Congress altered that formula temporarily, but that fix expires at the end of this year. The House measure would allow companies to use a blend of corporate-bond rates to calculate their liabilities, saving them about $26 billion over the next two years.

Without the change, pension contributions are expected to total $125 billion in 2004 and $153 billion in 2005, according to the PBGC.

Some Democrats and businesses say the Bush Administration is being overly pessimistic about pension underfunding. They say that low interest rates, coupled with the recession's hit to the stock market, make the health of the nation's pension plans look artificially poor.

Rep. Earl Pomeroy (D., N.D.) said this pessimistic view would "put unwarranted pressure on employers to increase pension funding." He argued that a modest turnaround in interest rates and the stock market would erase any projected underfunding. He voted for the bill, but said businesses should be allowed to use the long-term corporate-bond rate in pension calculations for much longer than two years.

**--John Godfrey contributed to this article.**

**Write to** John D. McKinnon at john.mckinnon@wsj.com[3]

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