Lawmakers get earful on pensions

by Mary Dalrymple
Associated Press

WASHINGTON — Pension plan administrators and consumers spoke up last week against a White House proposal to rewrite the formula that companies use to measure future pension liabilities.

They told lawmakers on a House Governmental Affairs subcommittee that a drastic revision could push more employers to drop traditional pension benefits.

But the White House has supporters in Congress who have started slowly moving the new formula into legislation. Senate Finance Committee Chairman Charles Grassley, R-Iowa, incorporated the proposal into a bill that is before his committee. The House Ways and Means Committee already approved the formula.

The equation for determine funding must be rewritten because the old formula relied on the 30-year Treasury bond for calculating benefit obligations. The government stopped issuing 30-year bonds in 2001, and a temporary measure that simulates the 30-year bond rate will expire at the end of this year.

The Treasury Department wants to replace the 30-year Treasury bond with a yield curve, a rate that is based on high-grade corporate bonds and then adjusted to reflect characteristics of a company's work force and its pension responsibilities over future years.

"Each pension plan has a unique schedule of future benefit payments," said Peter Fisher, a Treasury undersecretary.

Republicans in Congress favor the formula as a more accurate way to measure future liabilities and ensure employers have assets to pay full retirement benefits.

But pension plan administrators want to use a blend of high-quality corporate bonds to calculate their liabilities, anticipating it would fluctuate less than the yield curve.

"While the Treasury Department has yet to fully develop its alternative yield curve proposal, it appears to advocate a far more volatile and complicated regime," warned Kathy Cissna, representing the American Benefits Council of plan administrators.

Christopher O'Flinn, AT&T's vice president for corporate human resources, warned Congress could undermine the pension system by following the president's path. He spoke on behalf of the ERISA Industry Community, representing employee benefits plans.

"If it muddies the waters with untried, untested and minimally understood yield curves and disclosure requirements, it will accelerate the retreat from defined benefit plans and secure retirement for tens of millions of workers in the short run as well as the long-term," he said. ❒