



AMERICAN BENEFITS COUNCIL

February 4, 2010

FUNDING RELIEF: QUESTIONS AND ANSWERS GROWING THE ECONOMY WHILE SAVING AND CREATING JOBS

What is pension funding relief?

While the nuances of pension policy may seem wonky or irrelevant, the consequences of inaction on this issue are real and potentially devastating.

Due to an unprecedented economic crisis, pension plans are facing massive losses in their asset values. As a result, billions of dollars that could be pumped into the economy today are now scheduled to be diverted into pension plans.

Pension relief legislation would temporarily extend the period that employers have to fully fund their defined benefit pension plans—leaving them with more cash on hand to save and create jobs while helping to grow the economy and raise new federal revenue. Without immediate action, this looming pension crisis threatens to derail our recovery and could lead to higher unemployment.

In short, it's a proposal that is good for workers and their job security, while allowing employers to preserve existing jobs, create new ones, and invest in new capital to stimulate the economy.

What would pension funding relief accomplish?

Under current law, employers are required to contribute funds to their pension plans so that the plans are ultimately fully funded. Pension funding relief would give companies additional time to meet this requirement, in light of the economic crisis that's unprecedented in our lifetimes. Instead of the seven years required under current law, companies would be allowed to pay interest on their losses for two years before returning to the regular requirement of fully funding their plans in seven years.

This relief would apply only on a temporary basis, and all pension plans would still be required to be fully funded by a set date. This temporary relief would actually raise federal revenue, and reduce the federal budget deficit, while providing greater security for American workers.

With more time to fully fund their pension plans, employers will have more cash on hand to protect existing jobs and to stimulate the economy by hiring new workers and investing in their core business.

Isn't this just a give-away to big business?

No.

There's good reason that some of our nation's leading non-profit charities, labor unions, and lawmakers from both political parties support pension funding relief – in addition to many companies. As we continue to try to dig out of our recession, pension relief will benefit us all.

Why is pension funding reform such an urgent issue?

If Congress does not grant this extension, employers across the country will face immediate, unprecedented cash flow burdens and will be forced to close factories and stores and lay off employees. Instead of using money to save and create jobs, invest in equipment and other capital improvements, and expand operations, companies are being forced to divert billions of dollars into their pension funds – money that may not need to be paid out for decades.

On April 15, 2010, employers will make their next payment into the pension funds, and many may not be able to weather this financial blow. Should a temporary fix not be granted, employees from all sectors of the economy will be feeling the consequences as stores are closed, services are reduced, and jobs are cut.

Recognizing the seriousness of the issue, lawmakers from both parties, such as Democrats Earl Pomeroy (D-ND) and George Miller (D-CA) and Republicans Patrick Tiberi (R-OH) and John Boehner (R-OH), have proposed congressional action on pension relief.

What are the potential consequences of inaction?

Real-world consequences are numerous.

When a large retailer has to close a store because all available cash has been diverted into pension plans rather than payroll and expansion, the entire chain of businesses and people associated with the store suffer the consequences. Not only do local consumers lose the store and employees lose their jobs, but those who manufacture the products, drive the trucks, and serve food and coffee along the highway routes also feel the repercussions of the closure.

What caused this current pension crisis?

In recent years, the crashing stock market and falling interest rates have created a perfect storm for defined benefit pension holdings. Just as the asset value of pension plans declined and low interest rates artificially inflated liabilities, new regulations came into effect that increased employers' funding obligations and fined employers who did not fulfill those obligations.

Because pension plans are now facing massive paper losses, companies' funded status is expected to drop in the coming years, which will trigger additional financial penalties to employers and requires them to hoard cash that could instead help pump up the economy and protect and create new jobs.