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Senate OKs Sweeping Pension Legislation

By JIM ABRAMS , 08.03.2006, 11:19 PM

The Senate approved and sent to the White House pension legislation to give millions of Americans a better chance of getting the retirement benefits they've earned while sparing taxpayers from possibly paying for failed pension plans.

The legislation, passed 93-5 late Thursday, also provides new incentives for young workers to enroll in 401(k) plans, reflecting the trend away from traditional employer-based pensions.

"There is little doubt this bill will be the foundation on which the future of our retirement system rests," said Sen. Mike Enzi, R-Wyo., chairman of the Health, Education, Labor and Pensions Committee.

The vote was the last before the Senate leaves for a four-week summer break and gives lawmakers a major accomplishment to speak of when they meet their constituents back home.

"This bill says to millions of Americans who fear their pensions will disappear that help is on the way," said Sen. Edward Kennedy, D-Mass. He noted that in the past five years, some $8 billion in pension savings have been lost as companies terminate their plans, shifting benefit responsibilities onto the federal agency that insures such plans, the Pension Benefit Guaranty Corp.

A vote on the pension bill became possible after leaders from the two parties agreed to put off final action on a $469 billion spending package for the military until September. It followed a vote on the other outstanding issue, an unsuccessful attempt to simultaneously raise the minimum wage and cut inheritance taxes for multimillionaires.

The bill sets new funding rules for employers with defined-benefit pension plans and clamps down on companies that have fallen in arrears in meeting their funding obligations. In order to make a dent in underfunding now estimated at $450 billion, the bill requires plans to be 100 percent funded, up from the current 90 percent level, giving companies seven years to reach that goal.

Plans that are seriously underfunded face restrictions, such as a ban on increasing benefits, and must make accelerated catch-up contributions.

The White House had stressed that pension legislation would be acceptable only if it strengthened current funding requirements, and two chief House sponsors, Majority Leader John Boehner, R-Ohio, and Education and the Workforce Committee Chairman Howard "Buck" McKeon, R-Calif., said the bill met that condition.

They cited figures they said showed that changes in the bill "significantly increase the amount of contributions employers must make to meet their pension promises."

The five senators voting against the bill were Sens. Barbara Boxer, D-Calif., Robert Byrd, D-W.Va., Tom Coburn, R-Okla., John Cornyn, R-Texas and Russ Feingold, D-Wis. Two senators, Democrats Max Baucus of Montana and Joe Lieberman of Connecticut, did not vote.

The legislation carves out special treatment for the airlines industry, giving airlines that are in bankruptcy court and have frozen their pension plans an extra 10 years above the seven years for other plans to become financially whole.

That would directly benefit Delta Air Lines and Northwest Airlines Corp., although two others with active defined-benefit plans, American Airlines and Continental Airlines Inc., would be eligible for the same break if they decide to freeze their plans. Otherwise, they would get 10 years - the seven plus an extra three - to reach full funding after the new rules go fully into effect in 2008.

Republican Sen. Johnny Isakson of Georgia, home of Delta, a leading proponent of the airline provisions, said failure of the Senate to act on the bill would have "disastrous consequences." In Georgia, he said, "91,000 people's pensions and their futures are determined and dependent upon this Senate's actions."

Beyond giving a lift to defined-benefit plans, which have been in steady decline over the past several decades, many experts see the real significance of the legislation in its promotion of defined-contribution plans, such as 401(k)s, increasingly the preference of employers. With defined-benefit plans, retirees get a fixed amount every month. With 401(k)-type plans, workers accumulate an asset that they control.

The legislation promotes automatic enrollment into 401(k) plans, expected to boost the number of people with savings plans, particularly young workers who tend not to save. It gives financial firms greater latitude in offering advice to 401(k) and IRA investors on how best shape their investments and makes permanent provisions in a 2001 tax cut law that raises annual contribution limits for IRAs.

Also in the bill is language aimed at giving legal certainty to cash balance plans, a kind of defined-benefit "hybrid." Such plans have been challenged by employee groups who say older workers are unfairly treated when employers switch to such plans.

AARP chief executive officer Bill Novelli said in a statement Thursday the retirees' group is pleased with many aspects of the bill, noting the automatic enrollment of 401(k) plans and requirements for greater employer contributions into defined-benefit plans. But he said it does not provide the needed additional transition assistance for workers hurt by conversions to cash balance plans.

The bill is H.R. 4