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URGENT:
Action Needed Regarding Budget Negotiations

PROPOSED PBGC PREMIUM INCREASES WILL COST JOBS AND LEAVE FUTURE RETIREES WITH LESS MONEY

ISSUE: An unprecedented $18.1 billion tax increase on pension plans assumed in the House Budget Resolution (H.Con.Res. 95) will cost jobs and leave workers who retire in the future with less money. If companies who voluntarily sponsor pension plans for their employees are forced to pay this unnecessary and excessive tax increase, they must divert cash from business investment (at a loss of jobs), reduce funding for their pension plans, and/or reduce benefits paid from those plans in the future.

ACTION NEEDED: Urge the House leadership and budget negotiators to accept the provisions in the Senate resolution (S.Con.Res. 18) regarding Pension Benefit Guaranty Corporation (PBGC) premium-tax increases.

BACKGROUND AND EXPLANATION:

- Employers who sponsor defined benefit pension plans for their employees pay premium-taxes to the PBGC, the agency that makes continued pension payments to participants of terminated underfunded plans. Plan sponsors pay $19 per participant annually. In addition, if a plan is underfunded, the plan sponsor pays a variable premium of $9 for each $1000 of underfunding. In 2004 PBGC received approximately $677 million and $804 million from these two premium-taxes respectively, or $1.481 billion total.

- In addition, the agency receives capital funds from plans that are terminated and earns money by investing both these plan assets and the premium taxes. In 2004 it earned about $3.2 billion through its investments, a substantial amount (but not at a rate that benchmarks against private sector pension plans).

- These amounts compare favorably to the just over $3 billion that the PBGC paid out in benefits during 2004.

- The Administration has proposed raising the $19 premium-tax to $30 (indexed); giving the PBGC board authority to set the variable premium; and increasing the liability to which this latter premium applies. Currently Congress must set the premium tax rates.

- Raising the $19 premium to $30, itself a tax increase of over 63%, would increase revenues to the PBGC by approximately $2 billion over the five year period.

- If the entire $18.1 billion is added to the $19 rate, employers would have to pay $102 per plan participant to the government simply because the employer has volunteered to provide a pension plan for its employees. This 537% increase is obviously excessive.

- If the $19 premium is increased to $30 (raising $2 billion over the five years), the remaining $16.1 billion under the House budget resolution must be extracted from additional variable premium tax payments.

- Private sector defined benefit plans pay approximately $120 billion in benefits to retirees every year. The PBGC's $3 billion in 2004 benefits are 2.6% as high as this amount. Over 44 million Americans receive benefits from defined benefit plans or will receive benefits in the future. By comparison, the PBGC's current and future benefit population was 1.06 million at the end of 2004, or 2.4% as large a group.

- The question before Congress is simple: Should this money be invested in the economy and in soundly funded pension plans or should it be taxed away by the government? We believe the money should remain in the private sector and not be taxed away.

SOLUTION: The Senate budget resolution assumes that $2 billion will be raised over the five years through an increase in the $19 premium-tax. It also assumes that an additional $3.3 billion will be raised jointly by the HELP and Finance Committees. These targets are tough and will provide the PBGC with substantial sums of new income – but also can be achieved with less harm to business investment or the future retirement income of workers. The Senate provisions should be adopted in the budget resolution conference report.

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