PENSION RIGHTS CENTER

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"Disintegrating Pensions National Crisis: Call to Action" News Forum

Statement by
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National Press Club, Washington, D.C.

Thank you, Bob, and thanks to the Claude Pepper Foundation for hosting this very timely forum.

The Pension Rights Center continually hears from employees from all across the country who feel betrayed when their companies have unfairly terminated, changed, or frozen their long-standing pension plans – shattering dreams of an adequate retirement.

When companies change the rules of the game midstream, loyal, long-service employees lose out and often lose big – as you will hear today from a range of compelling witnesses.

There is no question that the pension system is facing severe and dramatic challenges, as too many companies retreat from pensions.

The Pension Rights Center believes that we have to do everything we can to:

- stop unfair freezes and terminations that can lead to significant benefit cuts for older employees;
- keep companies in the system; and
- find solutions to ensure that American workers have the retirement income security they need.

The fact is, pension plans are critical to providing adequate income to folks in retirement.

Without pensions or other savings, people are left to live only on Social Security – which averages about $11,500 for the typical retiree – equivalent to federal minimum wage.

While there has been a significant shift toward 401(k) plans, the evidence is mounting that, while 401(k) plans are a good vehicle for providing supplemental income for those who have money to save, they are not adequate as the sole provider of retirement income. According to the Congressional Research Service, half of all workers have only $15,000 in their accounts; and even for workers between 45 and 64, half only have $23,000.

The pension system has created a middle class among retirees. If this system is allowed to go down, people will lose their basic retirement security. The need to save pensions and to protect employees' rights is greater than ever.

Lately, we have seen an employee pension revolution among blue-collar and white-collar employees who've had it with companies breaking promises – and they are saying that companies must be accountable for their actions.

We have heard from pilots and machinists who question why their pension plans should be the first thing on the chopping block when companies go bankrupt. They question why companies should be allowed to go into bankruptcy courts and dump their plans.

We have heard from mid-level managers who say it feels like a "kick in the stomach" when healthy companies like Verizon and IBM hit them with double whammies -- first changing the plans through cash balance conversions, which reduces their pensions, and then by announcing pension freezes.

We have heard from folks who invested all their money in company stock, lost everything, and who wonder how their companies are allowed to mislead them.

The call to action is easy: let's keep pension promises to workers. The solutions however are not as simple.

Both the House and the Senate passed pension reform bills last year, which now must be reconciled in conference Committee. This is a massive piece of legislation, but I would like to note just a few provisions:

- In underfunded plans, the challenge is trying to strike the right balance between making sure companies fund plans adequately so they can pay promised benefits while not imposing such onerous requirements that companies are driven out of the system. Many employers say that indeed the pension funding reform may already be driving companies to freeze plans.

- We also need to make sure that older employees are protected when a company converts its traditional pension to a cash balance plan, an unfair practice that robs older employees of more than half of their expected benefits.

- The Senate pension bill recognizes that older employees lose significant benefits in conversions and provides important transition protection. In contrast, the House bill leaves employees without any protections.

- Furthermore, any legislation that legalizes cash balance plans should do so on a prospective basis and not retroactively.

- We must learn the lessons of Enron, where an employer misled its employees into investing their 401(k) plans in company stock and prevented them from selling it off before the company went under. At the time, Congress did nothing to address this issue. Now the Senate pension bill has very minimal provisions that will allow employees to switch out of employer contributions invested in company stock after three years – but does nothing to stop employees from putting all their eggs in one basket.

Unfortunately, neither pension bill addresses the newest trend where healthy companies are freezing plans to boost short-term profit. We have seen a line of companies, including Verizon, IBM, Sprint – companies at the top of their game -- who are freezing their plans, which severely reduces expected benefits of older employees. These profitable companies should be leading the way to the top in terms of providing good benefits, not leading the race to the bottom. Employees say that if companies are freezing their benefits, then the executive compensation of executives should be frozen too. The Pension Rights Center, in conjunction with the Communications Workers of America, has set up a web site, www.verizonretirementwatch.com, to help employees organize against the announced freeze.

In my nonadvocacy role at the Center, I direct the Conversation on Coverage, an initiative that brings together experts from different perspectives to develop new ways to provide retirement income for those who are not covered by a pension plan. Some of the recommendations include new kinds of hybrids that take the best features of old-style defined benefit plans – guaranteed employer-paid benefits—and combine them with the simplicity and ease of 401(k) plans. We have copies of the group's interim recommendations with us today and I hope you will take the time to look at them.

We need to recognize that pensions are good for employees, good for employers – and the economy – financing capital investment and boosting productivity and growth. Pensions are the single largest lump of money in the world, a stable pool of long-term savings,

When companies say they cannot afford to have pensions, we say we cannot afford not to have pensions. The ultimate question is, "What kind of an America do we want?"

We cannot simply abandon generations of older Americans to a future in which they cannot afford the basic necessities, let alone the comforts of retirement they deserve. Whether the solutions lie in legislation, in new retirement savings options or in changing corporate attitudes, we need to work together to develop creative solutions to maintain and promote pension plans.

Thank you.