A Pension Overhaul Gives, and Later Takes Away

By MARY WILLIAMS WALSH
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Earlier this year, as Congress inched toward a broad overhaul of the nation’s troubled corporate pension system, experts said the bill was so fraught with escape clauses that it could become easier for companies to shortchange their pension funds than under the current, flawed law.

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But under the version just approved by lawmakers, companies appear to get a break in putting money into their pension funds for only a couple of years before the rules start to tighten. Within a decade from now, according to a new analysis by the Congressional Budget Office, companies will be putting substantially more money behind their pension promises.

In a statement issued by the White House yesterday, after Senate approval of the bill Thursday night, President Bush called the measure “the most comprehensive reforms to America’s pension system in over 30 years,” and said he would sign the measure “soon.”

Earlier, the White House had warned that the president would veto the bill if it appeared to weaken the pension system.

The final vote on the bill capped grueling weeks of closed-door negotiations that had seemed on the brink of collapse just one week ago. Congress has been trying for months to strengthen the nation’s support for “defined-benefit” pensions — the federal insurance system that guarantees fixed retirement payments for eligible workers, much as the government guarantees bank deposits.

About 44 million Americans participate in the private pension system, but its future has been in doubt, as companies have switched in droves to newer types of benefits that do not offer guaranteed payments, and some have defaulted on their pension plans in bankruptcy.

Loopholes in the existing pension law have been making it possible for companies to put inadequate amounts into their pension funds without falling out of compliance. A string of big collapses in the last few years has threatened to swamp the federal Pension Benefit Guaranty Corporation.

Lawmakers waded into the legislative swamp vowing to close the loopholes, but companies have lobbied hard against changes that would cost them too much too quickly. A comprehensive remaking of the system would cost billions of dollars, and the companies with the riskiest pension funds tend to be those least able to pay the cost. Companies with strong pension funds see little reason they should be stuck with the bills.

Amid the jockeying over who would pay more and who would be spared, the pension guarantor did an analysis of the bill as drafted last winter. It showed that if the bill were enacted in that form, companies would actually end up putting less money into their pension funds than under the current law.

This week the Congressional Budget Office issued a new analysis. It showed that in its latest form, the bill would indeed allow companies to put less into their pension funds for two years. But after that, a tightening would begin. By the fifth year after enactment, companies would be contributing more than under the current pension law. And the payments would continue to grow for several more years, before leveling off.

Pension contributions would fall for two years because certain safeguards in the current law would be removed upon enactment, while the safeguards of the new law would be phased in gradually.

A spokesman for the pension agency said it had not updated its own analysis and could not say whether its own methodology would give the same results that the Congressional Budget Office got.

The bill will also increase the insurance premiums that companies pay the agency by roughly $6.8 billion over the next 10 years, the Congressional study found.

Winning a broad base of support for costly pension reforms has meant adding a number of provisions that will strengthen the pension system only indirectly, if at all. One popular measure will make it easier for companies with 401(k) plans to automatically enroll employees, instead of waiting for the employees to sign up themselves. That measure is expected to greatly increase the retirement savings of workers at companies with 401(k) plans.

Another provision of the bill will exempt the major airlines from the tougher new pension-funding rules — a defeat for the Bush administration, which had seen airline relief as an improper giveaway that might prompt other troubled industries and companies to demand giveaways of their own.

The White House had previously warned that President Bush might veto a pension bill that offered special breaks for single industries or companies. But the Bush administration appears to have bowed to the strong, bipartisan support in both houses of Congress for finding ways to help the major airlines keep their pension funds afloat.

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The biggest winner on that score is probably Northwest Airlines, which is in bankruptcy protection and had been warning that if Congress did not pass an airline relief provision before the August recess, it would terminate its pension plans and send them to the federal pension guarantor.

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Delta Air Lines, which is also bankrupt, will receive the same relief as Northwest. But the help may come too late for Delta, which has already begun the process of terminating its pilots' pension plan.

The bill will give Northwest and Delta 17 years to make their pension funds fully solvent, in contrast to the seven years most companies will get.

It will also allow Northwest and Delta to calculate their pension obligations in a lenient way, which will make the benefits the two airlines owe their workers look much smaller. That, in turn, will greatly reduce the amount of money the airlines have to put into their pension funds each year, assuming they emerge from bankruptcy with their plans intact.

Just how much the airlines' pension obligations will appear to shrink will vary as interest rates change. But applying the measure to the pension data Northwest reported at the end of 2005 shows the relief is considerable: It would reduce the airline's reported pension obligations by $3.4 billion, a little more than one-third.

The change does not matter while Northwest remains in bankruptcy, where it has to pay only a fraction of its usual pension contributions. But the prospect of a big reduction in its future pension contributions should help the airline greatly as it looks for lenders to finance its emergence from bankruptcy.

Northwest and Delta have both agreed to keep their pension plans frozen during the relief period, to reduce the risk that the smaller contributions will deplete them.

The other major airlines that still have pension plans, American and Continental, will get a smaller break on their pension contributions. They will have 10 years to make their plans solvent, or three years longer than most companies. But they will not be allowed to use the lenient calculation method that Northwest and Delta do. Nor do they have to freeze their plans.

American Airlines, a unit of AMR, issued a statement yesterday expressing relief that the long slog toward a pension bill was almost over, but saying it was dissatisfied with the airline provisions.

It urged President Bush to sign the measure into law, but said it was also counting on legislators from Texas, where it is based, to take up the cause of airline relief as soon as they came back from the August recess. It said the relief for the bankrupt airlines would provide them with an unfair competitive advantage.

Another of the bill's winners is United Parcel Service, which has 127,000 truck drivers who participate in a special type of plan jointly run by companies and unions, called multiemployer plans. The bill will give the trustees of such plans new authority to take remedial action if the plans become dangerously insolvent. They will be required to notify the participants of the crisis, and be allowed to reduce certain benefits to save money. Companies sponsoring such plans will have to increase their contributions by up to 10 percent.

U.P.S. had been eager to increase its control over such troubled plans as the Teamsters' Central States Pension Fund. The pension measures could have that effect in the next few months, when U.P.S. will begin contract negotiations with the Teamsters.

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