Senate Passes a Bill to Cover Pension Plans

By MARY WILLIAMS WALSH

Published: January 29, 2004

The Senate overwhelmingly passed legislation yesterday that would save companies an estimated $80 billion on their pension contributions over the next two years, but it was unclear whether the Bush administration would support the measure.

Companies that sponsor traditional pension plans have been coping with several years of bad market conditions, and the Senate bill is intended to tide them through until the climate improves. The centerpiece of the bill is a temporary change in the way companies calculate - in today's dollars - the amount they owe their employees in the future. The change would make these obligations look smaller, which in turn would allow the companies to set aside less money today.

The Senate bill also contains several provisions intended to help airlines, steel companies, unions that operate pension plans and certain other employers deal with individual pension problems. The government has estimated these provisions would save those companies $16 billion, bringing the total savings to about $96 billion.

The bill will have to be reconciled with one of two pension bills passed by the House last year. All three pending bills agree on the change in pension calculations, but the House bills offer little or none of the additional relief that the Senate contemplates.

The Bush administration has repeatedly expressed skepticism about such pension breaks for individual companies or sectors. Last week, three cabinet members issued a warning against pension legislation that "encourages firms to underfund their pensions."

One company, United Parcel Service, has already backed away from a measure addressing its pension concerns, saying it does not think the political climate is right. Last year, U.P.S. had garnered considerable support on the Hill for a measure that would have limited its exposure to a type of pension obligations stemming from its participation in plans run by the International Brotherhood of Teamsters. But that measure was not included in the bill passed yesterday, and a U.P.S. spokesman said the company had decided the chances for such a measure in an election year were poor.

If the Senate bill becomes law, the new way of calculating pensions would stay in force for two years. Pension specialists are hoping Congress will use those two years to make fundamental changes in the pension law itself, so that when the breather expires, the system does not simply lapse back to today's troublesome state. The existing pension law has been widely criticized as overly complex and ineffective at keeping pension funds healthy.

For airlines, the Senate bill could be a particular boon. It contains a special reprieve to companies whose pension plans have developed severe, lasting deficits. Almost all of the big airlines, as well as certain steel companies, fit that description, and the bill specifically offers the special break to those two sectors. But it also contains language allowing other companies to apply for the relief, as long as the Treasury does not specifically refuse them.

Normally, companies with severely underfunded pension plans must make a series of accelerated catch-up payments to revive their plans before they become irretrievable. The Senate provision would waive 80 percent of these required catch-up payments for the first year, and 60 percent for the second. The big airlines - particularly United and Northwest - have lobbied hard for such relief. So has the union that represents pilots at all of the major airlines except American.

United in particular would benefit. The airline, a unit of UAL, has been operating in bankruptcy protection for more than a year, and has said that it must restructure the payments coming due to its employee pension funds if it is to emerge successfully. Most members of Congress have been receptive to the airline's concerns, given its grave condition in an election year.

But the possibility of special pension-financing waivers for certain companies and sectors has drawn complaints from other businesses that do not offer pensions to their workers. Dan DiMicco, the chief executive of the Nucor steel company, recently wrote to several senators saying he considered the special waivers to be an unfair subsidy that would help rival steel makers at his company's expense. He wrote that such a subsidy might lead to trade retaliation from other countries.

Continued
1 | 2 | Next>>

RELATED ARTICLES

- Congress Returning to Take Up Domestic Security Plan and Iraq (September 3, 2002) $
- ENRON'S MANY STRANDS: THE ENERGY MARKET; Signs Enron Bet on Price Increase Before California Power Shortage (April 11, 2002) $
- Bush Weighs Raising Steel Tariffs But Exempting Most Poor Nations (March 4, 2002) $
- ENRON'S MANY STRANDS: CONGRESSIONAL MEMO; Party-Line Split Over Pensions Reappears as 401(k) Fears Grow (February 8, 2002) $

Find more results for Senate and Pensions and Retirement Plans

TOP BUSINESS ARTICLES

- Stocks End Mixed After Choppy Trading Session
- Prices Boost Earnings at Exxon Mobil
- Witness Testimony Is Postponed in Stewart Trial
- Verizon Posts 4th-Quarter Loss on Charges

Go to Business