OPENING STATEMENT

OF SENATOR CHUCK GRASSLEY

MONDAY, JUNE 5, 2000

Good afternoon. I want to thank all of you for joining us. We will hear from two panels of witnesses today who will help us better understand cash balance plans. They also will suggest solutions for some of the problems with cash balance plans, which are a type of defined benefit pension plan.

Currently, there is somewhere between $3 trillion and $4 trillion in defined benefit pension plan assets. In 1987 there were 111,400 defined benefit pension plans in the United States. By 1997 (the most recent year for which we have data) the total number of insured single-employer defined benefit plans had declined to under 44,000 plans -- **a nearly 60 percent decline**. By contrast, defined contribution plans are growing and growing. In 1996 there were approximately 632,000 defined contribution plans established in the United States. Total assets for both these types of plans stands at somewhere between $8 trillion and $9 trillion.

We used to think of retirement plans as being only in one or the other of these two categories. They were either defined benefit pension plans, which guarantee a certain monthly payment upon retirement; or they were defined contribution plans, which establish contributions from the employer or employee, but guarantee no payment at retirement. But for the past 15 years hundreds of employers have converted their traditional defined benefit plan to a cash balance or other hybrid plan.

Hybrid plans offer some advantages over traditional defined benefit plans, like simplicity and portability and for some workers, a better accrual of benefits. Under a traditional defined benefit plan that bases benefits on final average pay, the value of your annuity spikes upward in the last few years on the job. Under cash balance and similar plans, there is no spike in value at the end of a career. This is because benefits tend to accrue at a more even pace.

This more constant rate of benefit accrual in a cash balance plan can be a disadvantage if you are in the middle or toward the end of your career. Employees who have worked for years in a "back-loaded" plan, only to find that their employer will convert its plan to a more "front-loaded" one, have now spoken out. And it is many of these workers who are often not in a good position to save <u>more</u> money in order to make up the difference between what they expected to receive from their old retirement plan, and what they will get under their cash balance plan. Unless the plan provides transition benefits, some long-service employees can be harmed.

Because of the controversy over cash balance pension plans, some officials in government are ambivalent about all defined benefit plans. I am not ready to write off defined benefit plans. I think they do a decent job in providing a stream of income to people who are no longer in the paid workforce. While I believe that there have clearly been some problems with cash balance plans, I am not ready to condemn them either.

The Employee Retirement Income Security Act (ERISA) was enacted more than 25 years ago. At that time, retirement plan coverage was hovering around 50 percent. Since its enactment there has been no improvement in the formation of defined benefit pension plans. In fact, as we mentioned just a moment ago, the opposite is true. To me, that suggests that the Act is flawed.

This chart behind me shows the number of single-employer defined benefit plans by state of

administration for select states. It shows how defined benefit plans have declined over the past two decades. In 1977 in the State of Iowa there were 1,082 plans. By 1987, the number had dropped to 905. But by 1997 there were only 508 plans left.

You can see for yourself that Iowa is not unique. Each of the states listed tell the same story. Defined benefit plans have become so complicated and expensive that companies are not keeping them. Those who want to start up a plan, will start up a defined contribution plan.

A secure retirement is often likened to a three-legged stool. It should consist of Social Security, private savings and a defined benefit pension. But pensions are disappearing, and Congress should do more to make them attractive to companies. Defined benefit plans are a waste of time, however, unless participants can have confidence in their retirement program. So that is our other task today. It is to make certain that participants are treated fairly.

My concerns over the decline in defined benefit plans is one of the reasons why I introduced the Pension Coverage and Portability Act with Senator Bob Graham of Florida. While this is an omnibus reform bill, one set of provisions seeks to expand the formation of defined benefit pension plans. It would strengthen the three-legged stool of retirement security. Our bill does not contain language to regulate cash balance plans, however, so that is what I want to hear from our witnesses.

Today we will hear from those who oppose cash balance plans. We will hear from those who support them. Our first witness is Mr. James A. Bruggeman of Tulsa, Oklahoma. He is the individual about whom the first cash balance news story was written. He and his company are at the center of this controversy.

The AARP and the Pension Rights Center have both agreed to join us. Appearing for the AARP is Mr. Joseph S. Perkins, the immediate past President of the organization. Ms. Karen Ferguson has been the Director of the Pension Rights Center for years. She is here with us today. Welcome to all three of you.

On the second panel we will hear from Central and South West Corporation. Ms. Laurel Sweatt, the Manager of Benefits, will testify. She is appearing on behalf of the Association of Private Pension and Welfare Plans.

We will then hear from Dr. Sylvester Schieber, the Director of the Research and Information Center for Watson Wyatt Worldwide. Dr. Schieber is probably best known for his scholarly work on Social Security. Today he will discuss his exhaustive research on and analysis of data on cash balance plans and traditional defined benefit plans and their participants. Accompanying Dr. Schieber at the witness table will be Mr. Eric Lofgren.

Last but not least is Mr. John Woyke who is a Principal with the firm of Towers-Perrin in Valhalla, New York. Mr. Woyke has over 30 years of experience in employee benefits. He is a tax attorney and an enrolled actuary. Mr. Woyke is representing the U.S. Chamber of Commerce.

Welcome to all of you. Let's begin with the first panel.