THE WALL STREET JOURNAL.

TUESDAY JULY 5, 2016

OPINION

How to Revive Company Pension Plans

Congress should pass the Pension and Budget Integrity Act as soon as possible.

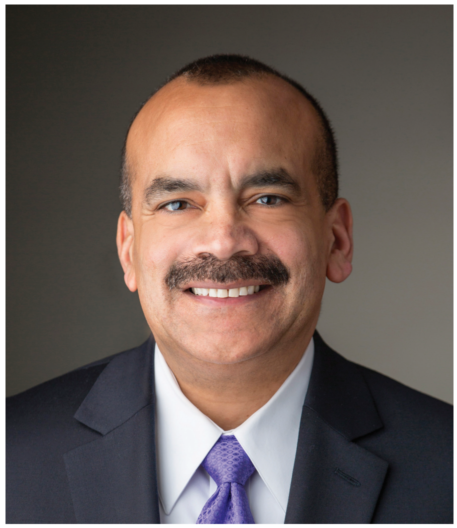
By Julio A. Portalatin

For more than 40 years, U.S. organizations have worked with the federal government to ensure that their defined-benefit pension plans would guarantee steady retirement income for plan members. They've done so by paying annual premiums to the Pension Benefit Guaranty Corp. (PBGC), an independent government-insurance entity created to backstop the solvency of pension plans and keep benefits flowing to retirees if their employer plans fail.

But over the years, the PBGC's mandate has been distorted by the federal budget practice of "double counting" premium payments that employer pension-plan sponsors must pay to the agency. In other words, the premiums are counted as both payments and as revenue gains that offset general federal spending—even though, by law, they can only be used by the PBGC.

Now, a law introduced in the House in April with sponsors from both sides of the aisle, HR 4955, would restore the PBGC's integrity of purpose.

Double counting has encouraged Congress to dramatically increase PBGC premiums for single-employer plans three times over the past four years. These unwarranted increases are counterproductive to the goals of enhancing the agency's financial health and could threaten the retirement security of millions of Americans.



Julio Portalatin *PHOTO: MERCER*

That's because the tens of billions of dollars in higher premiums enacted in 2012, 2013 and 2015 are pulling important resources from other key business priorities and undermining employers' desire to maintain pension plans. Many plan sponsors are concluding that the only way to reduce the growing burden of PBGC premiums is to leave the pension system. This could lead to the unintended consequence of shrinking the PBGC's premium base and thus weakening the PBGC's overall financial position as an insurance solution retirees can rely on in a worst-case scenario for their pension plans.

Fortunately, HR 4955, the "Pension and Budget Integrity Act," would end the practice of double counting and help Congress resist unnecessarily raising premiums in the future. It would do so by repealing Section 406 of the Employee Retirement Income Security Act (Erisa), in which premiums paid to the PBGC are counted as "on budget" and ostensibly available to help pay for other government spending. When originally enacted in 1974, however, Erisa explicitly required the newly created PBGC to be an "off budget" program.

By fixing a key problem that has contributed to the departure of companies from the pension system, the legislation takes an important step in addressing a serious threat to both pensions and the single-employer program at the PBGC. It represents a great opportunity for bipartisan progress on the urgent issue of retirement security, and would contribute to the overall goal of improving retirement outcomes for more Americans.

Congress should continue its review of the U.S. retirement system and the PBGC should be a key area of focus within this review, along with other rules that affect the prevalence and effectiveness of private-sector defined-benefit pension plans.

For now, the passage of HR 4955 would be an excellent step. The time has come to end a practice that undermines the prospect of successful retirement for so many hardworking citizens.

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