American Hospital Association

Protecting the Promise of Care

Pension Funding Relief

Background

As the largest private sector source of jobs – 5 million nationwide – hospitals are a critical part of our nation's economy. Every dollar spent by a hospital supports more than $2 of additional business activity in a community. The drop in the value of pension plan assets coupled with the credit crunch continues to harm hospitals. The cost of borrowing funds remains high, making it more difficult for hospitals to find the money to meet their employees' pension obligations, as well as to make needed facility and technology improvements.

AHA View

The AHA supports requirements that ensure fully funded pension plans for hospitals' dedicated workforce, but under the current economic conditions, it is imperative that some temporary relief from these requirements be granted if they are to be met in the long term. *The Preserve Benefits and Jobs Act* (H.R. 3936), introduced by Reps. Earl Pomeroy (D-ND) and Pat Tiberi (R-OH), would continue worker and retirees' protections against pension benefit accruals being frozen in 2009 and 2010, protections originally enacted in the 2008 *Worker, Retiree and Employer Recovery Act.* H.R. 3936 also would protect future retirees by prohibiting pension plans from being drained by lump sum ad hoc benefits to certain individuals. Finally, the bill would change the date when pensions are guaranteed to the date of the plan termination.

Employers need more time to recover their 2008 investment losses than the current seven-year period in order to keep workers employed or, in the worst case, to prevent companies from going bankrupt in these difficult economic times. *The Preserve Benefits and Jobs Act* would provide struggling employers with the choice of an extended contribution schedule of nine years with payments during the first two years consisting of interest-only, or a 15-year payment schedule. To take advantage of the longer payment schedules, employers would have to guarantee to offer ongoing retirement benefits and comply with certain conditions.

The Senate-passed *American Workers, State and Business Relief Act* (H.R. 4213), includes changes similar to those proposed in the Pomeroy-Tiberi bill. The Senate bill, now awaiting conference with the House, calls for:

- 2+7 amortization – plan losses could be amortized over nine years (versus the current rule of seven) and the first two years of the nine-year amortization period would be interest-only;

- 15-year amortization – plan losses could be amortized over 15 years;

- Eligible plan years for relief – 2008, 2009, 2010 or 2011;

- Maintenance of effort – would increase required amortization installments (under the 2+7 or 15-year schedule) if any member of a company's control group paid excess compensation (over $1 million), declared an extraordinary dividend or redeemed more than 10% of its company stock; and

- Benefit restriction relief – provides relief from benefit accrual restrictions for two years (this only applies to benefit accrual restrictions and not to restrictions on lump sums and other accelerated distributions, amendments to improve benefits, or plant shutdowns).

The AHA supports legislation currently awaiting the House-Senate Conference, the *American Workers, State and Business Relief Act,* or an approach such as the *Preserve Benefits and Jobs Act.* Both contain urgently needed changes to help hospitals meet their pension obligations.