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“Balancing Pension Security and Economic Growth”

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On behalf of the ERISA Industry Committee
Before the Health, Education, Labor & Pensions Subcommittee
Committee on Education and the Workforce

Good morning and thank you for the opportunity to testify on behalf of the ERISA Industry Committee on an issue that is more closely linked to the economic health and welfare of the country than most people realize.

Pensions -- whether in the form of defined contribution or defined benefit plans -- play a critical role in providing retirement income for millions of Americans. Pension plans are also valuable tools that allow employers to attract and retain highly qualified and valuable workers.

This Committee has the responsibility of balancing many competing objectives through your efforts to encourage employers to offer pension benefits, to safeguard those benefits for all beneficiaries, and to ensure that American workers have sufficient financial resources from their private pensions and savings to carry them through retirement. The employer community has long respected the role you play in this arena.

As the Chief Financial Officer of United States Steel Corporation, my primary responsibility to the company and our shareholders is to ensure we are earning an acceptable rate of return on the capital entrusted to us, by guiding the financial affairs of a very complex global enterprise. The company relies upon my recommendations and judgment to finance new investments, manage our cash flow, and ensure we honor all of our obligations, among other matters.

U. S. Steel is an integrated steel producer of flat-rolled and tubular products with major production operations in North America and Europe. An integrated producer uses iron ore and coke as primary raw materials for steel production. According to World Steel Association's latest published statistics, we were the eighth largest steel producer in the world in 2010. U. S. Steel is also engaged in other business activities consisting primarily of transportation services (railroad and barge operations) and real estate operations.

The ERISA Industry Committee (ERIC) is a non-profit association committed to representing the advancement of the employee retirement, health, and compensation plans of America's largest employers. ERIC's members provide benchmark retirement, health care coverage, compensation, and other economic security benefits directly to tens of millions of active and retired workers and their families. ERIC has a strong interest in proposals affecting its members' ability to deliver those benefits, their cost and their effectiveness, as well as the role of those benefits in the American economy.

I also serve as the Chairman of the U. S. Steel and Carnegie Pension Fund. U. S. Steel has managed a large domestic pension plan for almost as long as we have been in the steel business. We have weathered many economic storms during our 110 year history while providing pension benefits to hundreds of thousands of retirees and their beneficiaries during this time.

Today, we continue to honor pension commitments made generations ago by executives long since retired. Our largest U.S. defined benefit pension plan (Plan) has approximately 78,000 participants, most of whom are retired. This Plan was closed to new entrants in June 2003 in order to lessen the interest rate, market, legislative and other risks of the Plan to our capital structure. Nonetheless, we expect to be paying benefits to retirees from our Plan for at least 50 years from now. Over half a century ago, my predecessors laid the groundwork for the billions of dollars of benefits that we have paid to our retirees by investing wisely and funding even when they were not required to do so, and that is the legacy I plan to leave for my successors, too.

We take a responsible, prudent approach to managing our long-term pension obligations. For many years, we have been voluntarily contributing to our Plan $140 million annually -- $1.3 billion since 2003 -- in order to smooth out our future annual requirements. The financial crisis hit our company particularly hard in 2009 and we lost $1.4 billion. We idled 5 of our 8 steel-making facilities, we reduced compensation for our leadership and we cut our capital budget by $300 million or over 40%, but we still made a $140 million voluntary pension contribution to our Plan. Our last publicly released funding results from 2010 showed that our Plan was over 101% funded. It seemed at the time that our prudent and conservative approach to funding had paid off and that we had weathered the financial storm very well. However, if we had used today's exceptionally and artificially low interest rates resulting from Federal Reserve policy, this percentage would have been about 85%.

I understand that the topic of pension funding rules is one that sometimes causes eyes to glaze over, so I will do my best to avoid a legal or actuarial discussion of the Pension Protection Act. I would however, like to explain how 1) interest rates that are at unprecedented low levels, and 2) the pension funding rules enacted under the Pension Protection Act of 2006 (Pension Protection Act) are severely burdening companies, undermining the future of defined benefit plans and potentially threatening our larger national economic recovery.

The Pension Protection Act requires the use of an interest rate yield curve (either a full yield curve or one segmented by short, medium and longer term periods) to develop the interest rate used to calculate pension liabilities and minimum funding requirements. The lower the interest rates, the higher the liabilities and potential funding requirements. These interest rate rules were conceived and developed over a period of years and long before the financial crisis. Since the financial crisis, the Federal Reserve has adopted a monetary policy to lower and maintain interest rates at levels that are extraordinarily low by any historical standard. It is clear from their actions at the Federal Open Market Committee meeting on January 25 that they intend to maintain these low levels of interest rates for years to come to support a stronger economic recovery, although the federal funds rate target is about 4% lower than the

Fed's targeted rate over the longer run. This current rate environment is so much different than the interest rate environment and historical rate perspectives that existed at the time the Pension Protection Act was enacted that I believe the interest rate rules developed would have been much different and more flexible than they are today. They should be revised now.

The actions by the Fed to control interest rates potentially put a significant near-term burden on sponsors of defined benefit pension plans, something that the Fed has acknowledged. Minimum funding amounts will be higher in the near-term than necessary for a long term obligation, which creates great economic inefficiency and impacts other important capital allocation decisions that can help the economy. The Pension Protection Act further penalizes companies like U. S. Steel who have prudently and voluntarily funded significant amounts by requiring the reduction of actual plan assets by our credit balances in determining our minimum funding contributions.

What the combination of the Pension Protection Act funding rules and extraordinarily low interest rates means to our business and the economy at-large could also be very significant. U.S. Steel is pursuing a large capital investment program with spending in 2011 and 2012 approaching a billion a year. We are building new coking facilities in Pennsylvania and Indiana, and a new pipe mill and a continuous annealing facility in Ohio. We have also received all the permits required to expand and modernize an iron ore mine in Minnesota and have several dozen other projects under consideration for facilities in Michigan, Alabama and elsewhere. These planned investments will create thousands of construction jobs and hundreds of permanent jobs. Billions in goods and services will be bought from local and national suppliers. We will be investing in products and processes intended to make us a viable and competitive company long into the future.

Some of these investments, however, could take backstage to our pension funding demands under the current rules and this artificially low interest rate environment. Within the next few years, at these rate levels, the cash needed to fund our main pension plan could be significantly higher than--perhaps multiples of--the $140 million per year that we have been voluntarily funding for years now. With increased levels of cash outflow required to fund our main plan, our capital expenditures will likely be impacted since that is one of our most significant controllable cash outlays. If other companies like U. S. Steel have to reduce important and economically beneficial investments like these to fund significant increases in pension contributions as a result of the Pension Protection Act and extraordinarily low interest rates, the economy will continue to disappoint and under perform. Timing is everything. That's true for the economy, our business, and our pension plans.

Therefore, on behalf of U. S. Steel and the ERISA Industry Committee (ERIC), I urge you to give serious consideration to the "Industry Proposal on Funding Stabilization." This proposal would better align Pension Protection Act funding rules with economic reality, without deteriorating long-term solvency of pension funds or the PBGC.

There are two components to the proposal. The first component, and from our perspective most important, would stabilize segment discount rates and raise the effective rate for many plans by roughly 120 basis points currently. The industry proposal utilizes floors for interest

rates based on long term trends, smoothing market aberrations caused by short term monetary policy. This would only apply to plans electing segment rates. The second component would lengthen amortization periods of the unfunded shortfall, but within a framework that still requires all plans to be 80% funded within 7 years, but at the same time, allows plans whose funded status is within the 80% to 100% range to amortize over a 15 year period.

The Industry Proposal on Funding Stabilization is intended to be a permanent approach that would produce more stable and predictable minimum contribution requirements. It is a responsible approach that protects beneficiaries and the PBGC. It is also a responsive approach to the economic choices facing plan sponsors over the next several years. Congress should fix a problem that is the direct, although perhaps unintended, result of government policy.

This proposal is built on the same concepts Congress has approved in the past and the relief could not come at a more critical time. If enacted soon, this important reform could be the most constructive legislation Congress could pass to help ensure continued economic recovery, especially among the capital intensive industries where we want to continue to encourage productive investment in new plants and equipment.

Before I conclude, I would also like to say that U. S. Steel and other ERIC members remain strongly opposed to any proposals that would dramatically increase PBGC insurance premiums or that give broad powers to the PBGC to vary the amount of premiums based on the PBGC's subjective view of a company's credit worthiness. U. S. Steel and other companies who have well-funded pension plans and a history of meeting their pension obligations should not have to pay a higher premium than other plan sponsors solely due to their credit worthiness. There is no doubt PBGC insurance premiums are an important revenue source for the PBGC and also help to mask the size of the federal deficit, but as each of us in the pension community is well aware, the best way to ensure any pension plan's future is to increase its funded status by stable and predictable funding infusions.

The current draconian funding requirements of the Pension Protection Act also burden the PBGC's pension plans, which are affected by the same artificially low interest rates as affect plan sponsors. The Industry Proposal on Funding Stabilization offers the best path forward for the PBGC's long term viability, for plan sponsors who want to maintain their plans as long as the costs remain affordable, and for beneficiaries who are counting on those benefits in their retirement years.