

December 5, 2012

The Honorable Max Baucus  
Chairman, Senate Committee on Finance  
SD-219 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Orrin Hatch  
Ranking Member, Senate Committee on  
Finance  
SD-219 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Tom Harkin  
Chairman, Senate HELP Committee  
SD-428 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Mike Enzi  
Ranking Member, Senate HELP Committee  
SD-428 Dirksen Senate Office Building  
Washington, DC 20510

RE: PBGC Premiums

Dear Chairmen Baucus and Harkin and Ranking Members Hatch and Enzi:

The undersigned organizations either sponsor directly or represent private pension plans that provide benefits to tens of millions of Americans. We are writing today to discuss important information about the impact of increases in PBGC premiums on the PBGC and defined benefit pension plan participants.

Because of the \$9 billion increase in PBGC single-employer plan premiums that was enacted during the summer, PBGC premiums will, on a national basis, be raised by an average of almost 50%. For some employers, the increase will be far more than 50% and can be many millions of dollars annually. Moreover, by 2014, PBGC flat rate premiums will have been increased by more than 157% over nine years; by 2015, variable rate premiums will have roughly doubled over two years. Considering the fact that we have had minimal inflation and severe economic difficulties in recent years, these increases are particularly challenging.

Premium increases are often thought of as necessary to protect the PBGC from risk, but there is no publicly reviewed evidence of PBGC risk, aside from a "deficit" caused entirely by the use of artificially low interest rates to measure PBGC liabilities. (Not only are current interest rates artificially low due to the efforts of the Federal Reserve Board to stimulate the economy, but PBGC's rates are lower than the rates created by the Federal Reserve's efforts.) Moreover, these premium increases can hurt both the PBGC and plan participants. This is because over the long term, increased premiums can lead to a smaller pension system (which hurts participants) and thus a reduction in revenue sources for the PBGC.

In our view, the biggest threats to the defined benefit system, and by extension to the PBGC as its guarantor, are the burdens on pension plan sponsors. Competitive pressures, funding obligations, and accounting volatility, in combination with PBGC premiums, have effectively forced plan sponsors to focus less on how to enhance benefits under their plans and more on addressing those challenges. More specifically, plan sponsors are exploring various approaches that eliminate risk to the companies themselves and the PBGC. This can lead to employers leaving the pension system, which is a very adverse result for retirement security and for the PBGC.

We urge you to examine the critical issues related to PBGC premiums. In this regard, the issues that need to be reviewed include:

- As discussed above, the long-term effects on the PBGC and retirement security of many employers being effectively forced to consider leaving the private pension system to avoid risks.
- PBGC's public statements before the premium increase that the PBGC would not need to be bailed out in the foreseeable future.
- The PBGC's "deficit," which, according to one study, is a product of today's historically low interest rates—which, as noted, are artificially low due to the efforts of the Federal Reserve Board to stimulate the economy—and PBGC's assumptions.
- The effect of PBGC premiums on business investments and jobs.
- The reliability of PBGC's calculations, in light of the very critical conclusions of the PBGC's Inspector General regarding the lack of quality control or review with respect to PBGC's actuarial work.

We believe that the important PBGC governance reforms enacted over the summer could be very helpful in a Congressional review of these critical issues.

We thank you for all you have done to promote retirement security. We appreciate all of the hard work and effort that went into enacting the funding stabilization legislation that was included in MAP-21. The PBGC premium issue, however, merits a separate analysis. Today, we ask you to review critical premium issues that could have important long-term effects on all plans, participants, and the PBGC.

American Benefits Council  
American Postal Workers Union, AFL-CIO  
Arch Coal, Inc.  
Baptist Health Care Corporation  
CenturyLink  
Chrysler Group LLC  
Con-way Inc.  
Cox Enterprises  
Crozer-Keystone Health System  
Dana Holding Corporation  
The Dow Chemical Company  
Easter Seals  
Eastern Connecticut Health Network  
Eli Lilly and Company  
Financial Executives International  
Financial Services Roundtable  
FirstEnergy Corp.  
Ford Motor Company  
Hooker & Holcombe, Inc.  
ITT Exelis  
Lockheed Martin Corporation

Martin Health Systems  
Masonite Corporation  
National Rural Electric Cooperative Association  
Navistar  
Newspaper Association of America  
Paul Hastings LLP  
The Principal Financial Group  
Rock-Tenn Company  
Sigma-Aldrich Corporation  
SUPERVALU  
Tate & Lyle PLC  
Towers Watson  
Transamerica Corporation  
Triumph Group, Inc.  
Unisys  
United Health Services Hospitals  
Weyerhaeuser Company  
WorldatWork

December 5, 2012

The Honorable Dave Camp  
Chairman  
House Ways and Means Committee  
1101 Longworth House Office Building  
Washington DC 20515

The Honorable Sander Levin  
Ranking Member  
House Ways and Means Committee  
1101 Longworth House Office Building  
Washington DC 20515

The Honorable John Kline  
Chairman, House Education and the  
Workforce Committee  
2181 Rayburn House Office Building  
Washington DC 20515

The Honorable George Miller  
Ranking Member, House Education and the  
Workforce Committee  
2181 Rayburn House Office Building  
Washington DC 20515

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The Dow Chemical Company  
Easter Seals  
Eastern Connecticut Health Network  
Eli Lilly and Company  
Financial Executives International  
Financial Services Roundtable  
FirstEnergy Corp.  
Ford Motor Company  
Hooker & Holcombe, Inc.  
ITT Exelis

Lockheed Martin Corporation  
Martin Health Systems  
Masonite Corporation  
National Rural Electric Cooperative Association  
Navistar  
Newspaper Association of America  
Paul Hastings LLP  
The Principal Financial Group  
Rock-Tenn Company  
Sigma-Aldrich Corporation  
SUPERVALU  
Tate & Lyle PLC  
Towers Watson  
Transamerica Corporation  
Triumph Group, Inc.  
Unisys  
United Health Services Hospitals  
Weyerhaeuser Company  
WorldatWork