



AMERICAN BENEFITS COUNCIL

December 10, 2013

The Honorable Patty Murray
154 Russell Office Building
U.S. Senate
Washington 20510-4704

The Honorable Paul Ryan
1233 Longworth Office Building
U.S. House of Representatives
Washington DC 20515-4901

Dear Chairman Murray and Chairman Ryan:

On behalf of the American Benefits Council (the "Council"), I am writing to urge you, as you close in on a FY 2014 budget agreement, to reject proposals that would again increase Pension Benefit Guaranty Corporation (PBGC) premiums paid by employer sponsors of pension plans in order to close a federal budget gap. We also urge you to support retention of current tax incentives for employer-sponsored health and retirement benefits that are vital to the financial security of millions of American workers and their families.

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing employee benefits. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans that cover a majority of Americans.

PBGC PREMIUMS

Congress already has increased premiums significantly in recent years. In 2012 over \$9 billion of new premiums were imposed on employers based on an illusory PBGC deficit that would not exist at all without both the extremely low interest rates of the past few years and other assumptions PBGC uses that do not at all accurately reflect the manner in which the agency pays benefits. While the Federal Reserve Board's low interest rate policy is appropriately designed to help spur economic recovery, it has the perverse effect of undervaluing pension assets. And that additional \$9 billion is on top of nearly \$11 billion of premium increases enacted in 2006 based on the same flawed valuation system.

If premium increases continue, it will further shrink the universe of plans from which premiums are drawn. This will impose greater pressure on employers who are struggling to remain within the defined benefit pension plan system and increase the likelihood of even

higher premiums. Of great concern is that PBGC has acknowledged that it has never considered this issue: “[w]e have not yet investigated the potential that [companies exiting the system] would decrease PBGC premium income.”¹ Thus, ironically, PBGC has never examined the biggest threat to its future, i.e., a shrinking premium base caused by driving employers out of the defined benefit system with excessive premiums and other burdens.

Pensions are long-term obligations. The agency’s requirement to pay beneficiaries stretches decades into the future, just as is the case for ongoing plans operated by private employers. These benefits will be paid over periods of high and low interest rates, and rising and falling equity markets. Any point-in-time-determination results in a skewed and misleading perspective of the true financial status of private pension plans or the PBGC itself.

As the attached analysis by the Council clearly demonstrates, straightforward math refutes the PBGC’s contention that it has serious financial troubles that can only be addressed by substantial premium increases.

Imposing further premium increases simply to offset other federal spending contributes to an environment in which employer plan sponsors committed to remaining in the system must expect to see their costs increased regardless of their plans’ ability to pay promised benefits. Sponsors of these plans rightfully view these premiums as a tax that simply raises the cost of maintaining the plan.

TAX INCENTIVES FOR EMPLOYER-SPONSORED BENEFITS

The Council also urges great caution regarding changes to the current tax incentives for employer-sponsored retirement and health benefit programs.

Proposals purporting to increase federal tax receipts by curtailing retirement savings incentives would jeopardize individuals’ retirement income security. Contrary to common perceptions, these restrictions do not just affect high income individuals. For example, the Employee Benefit Research Institute (EBRI) has determined that the so-called “20/20” proposal – under which annual contributions to defined contributions would be limited to the lower of \$20,000 or 20% of income – “would cause a significant reduction in retirement savings by the lowest-income workers.”²

Moreover, any purported short-term revenue gain derived from restricting retirement savings is largely illusory because lower current savings results in smaller distributions – and less tax revenue collected – when workers retire. Lower personal savings will also increase

¹ PBGC FY 2012 Annual Exposure Report, Page 4
www.pbgc.gov/documents/2012-exposure-report.pdf

² Jack VanDerhei, Employee Benefits Research Institute (EBRI), “Tax Reform Options: Promoting Retirement Security,” EBRI Issue Brief No. 364, November 2011.
www.ebri.org/pdf/briefspdf/EBRI_IB_11-2011_No364_RefTaxRfm.pdf

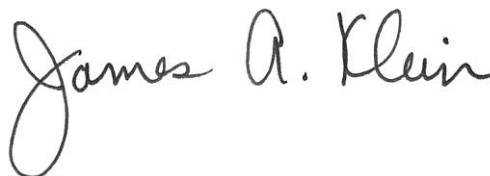
pressure on public programs, like Social Security, to provide a greater share of retirement income.

Similarly, it would be ill-advised to restructure the tax rules governing employer - provided health coverage at this transformational moment in the health benefits system. No one can predict with certainty how the Affordable Care Act will affect employer-sponsorship of health benefits. To the extent that taxing health benefits could result in some workers no longer valuing employer-provided health coverage - or employers responding by no longer sponsoring a plan - there will be a corresponding cost to the federal government as workers obtain coverage in the insurance exchanges where many of them will be eligible for premium subsidies. With so many consequences unknown and unknowable at this time, altering the existing tax treatment of health benefits could be costly and disruptive.

In light of the foregoing, we urge Congress to ensure that any budget agreement does not alter the tax treatment of vital employer-sponsored retirement and health benefits and to reject any call to raise PBGC premiums.

Thank you for your consideration of our views. If you or your staff have any questions, please do not hesitate to contact Diann Howland, vice president, legislative affairs at dhowland@abcstaff.org or (202) 289-6700.

Sincerely,

A handwritten signature in black ink that reads "James A. Klein". The signature is written in a cursive, flowing style.

James A. Klein
President

cc: Budget Conferees

The Honorable John A. Boehner, Speaker of the House,

The Honorable Nancy Pelosi, House Democratic Leader

The Honorable Harry Reid, Majority Leader of the Senate

The Honorable Mitch McConnell, Republican Leader

Senate Finance Committee Chairman Max Baucus

Senate Finance Committee Ranking Republican Member Hatch

House Ways and Means Committee Chairman Dave Camp

House Ways and Means Committee Ranking Democratic Member Levin

Senate Health, Education, Labor and Pensions Committee Chairman Tom Harkin

Senate Health, Education, Labor and Pensions Committee Ranking Republican Member

Lamar Alexander

House Education and the Workforce Committee Chairman John Kline

House Education and the Workforce Committee Ranking Democratic Member George Miller