AMERICAN BENEFITS COUNCIL

June 24, 2020

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
Washington, DC 20515

The Honorable Charles Schumer
Democratic Leader
U.S. Senate
Washington, DC 20515

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Kevin McCarthy
Republican Leader
U.S. House of Representatives
Washington, DC 20515

Dear Speaker Pelosi, Leader McConnell, Leader McCarthy, and Minority Leader Schumer:

The American Benefits Council ("the Council") is a Washington, D.C.-based employee benefits public policy organization. We advocate for employers dedicated to the achievement of best-in-class solutions that protect and encourage the health and financial well-being of their workers, retirees and families. Council members include over 220 of the world's largest corporations and collectively either directly sponsor or administer health and retirement benefits for virtually all Americans covered by employer-sponsored plans.

The economic consequences of the COVID-19 pandemic have created very significant challenges for single-employer defined benefit pension plans and their employer plan sponsors. Prior to the pandemic, pension plans were already under significant pressure due to the continued historically low interest rates, which cause the present value of pension liabilities to be treated as very high. The crisis has exacerbated those challenges, as discussed below.

In this context, the Council developed two proposals for single employer pension plans that have been included in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act (H.R. 6800), passed by the U.S. House of Representatives on May 15. One proposal extends and enhances "interest rate stabilization" which adjusts current interest rates to be closer to historical norms. The other proposal allows employers to pay for long-term pension liabilities, including those attributable to the crisis, over 15 years, instead of seven years.

Recently, we have been asked three questions about the proposals: (1) How do these proposals affect the Pension Benefits Guaranty Corporation (PBGC)?, (2) Has the recent improvement in the stock market made these proposals unnecessary?, and (3) Can action on these proposals wait until later in year, perhaps in a post-election session?

How do these proposals affect the Pension Benefits Guaranty Corporation (PBGC)?

PBGC's financial condition would improve by almost $7 billion.

This is the simplest issue to address. The Congressional Budget Office has officially estimated that the PBGC financial condition will improve by over $6.9 billion over the 10-year budget window, solely due to the two proposals referenced above.[1]

Has the recent improvement in the stock market made these proposals unnecessary?

The recent improvement in the stock market does not come close to solving the problem.

There are three reasons why funding obligations are such a big problem. First, the continuation of historically low interest rates has inflated pension contributions to an extreme degree. Of course, interest rates have continued to fall during the crisis, making this situation even more serious.

Second, for a large part of the economy, company revenues have fallen sharply. The funding obligations for 2020 already were difficult to address. To face far higher contributions for 2021 with substantially less revenue is not feasible.

Third, the market has simply gone from horrible to bad. For example, the Dow started the year at 28,868. As of the date of this letter, the Dow is not at 27,000. But even if it were to improve to that level, it would mean the Dow had suffered a loss of 6.5%. Under Congressionally mandated rules, pension plans must generally earn over 5% in order to avoid having their funded status deteriorate, since that is the implicit assumed rate of return under the funding rules. . So, in effect, even if the Dow were at 27,000 and even if a plan were fully invested in Dow equities, the plan would still have an effective loss of over 11%, compared to what it would need to earn to avoid a deterioration of its funded status.

In short, pension plan sponsors are (1) facing huge liabilities that are inflated by low interest rates, (2) confronting historic decreases in revenue, and (3) enduring what is, at

[1] Estimated Budget Effects of the Revenue Provisions Contained in H.R. 6800, The "Health and Economic Recovery Omnibus Emergency Solutions ('HEROES') Act," as Passed by the House of Representatives on May 15, 2020, Joint Committee on Taxation, May 28, 2020, JCX-16-20.

best, a bad stock market. So, regrettably, the recent stock market improvement is not the solution.

Can action on these proposals wait until later in year, perhaps in a post-election session?

This problem cannot wait until a post-election session.

The Council recently conducted an extensive study of the funding issues facing over 700 companies. The study determined that funding obligations for 2021 were due to double from 2020 to 2021, costing American businesses nationally over $24 billion for 2021 and perhaps almost 500,000 jobs. Those funding obligations may begin early in 2021. At a time when revenues and commerce are decreasing and there is continued uncertainty regarding the next several months, businesses are appropriately making decisions *now* to ensure they can maintain operations. It would be both incorrect and dangerous to assume that companies can wait until the fourth quarter of this year to know whether there will be legislative relief.

The magnitude of these obligations means that planning to satisfy them requires long-term preparation, which has already begun. A business cannot plan for, for example, a $100 million obligation in a few months. Unfortunately, based on input we have received from employer plan sponsors, we can say with great confidence that if funding stabilization legislation is not enacted until December 2020, many companies will have already been forced to take cost-cutting measures, including layoffs, facility closings, and/or a failure to make critical investments in their businesses. In short, because companies will not be able to avoid damaging consequences if legislation comes at the last minute, waiting a couple more months or until after the election will result in great harm to the economy and to American workers.

We urge Congress to include the pension funding reforms from the HEROES Act, which have been extensively reviewed and vetted, would greatly enhance American companies' ability to invest in their employees and their businesses during this critical time.

Sincerely,

Lynn D Dudley

Lynn D. Dudley
Senior Vice President, Global Retirement and Compensation Policy

cc: All members of Congress