



February 5, 2018

The Honorable Mike Kelly
U.S. House of Representatives
Washington, DC 20515

The Honorable Ron Kind
U.S. House of Representatives
Washington, DC 20515

Dear Representative Kelly and Representative Kind:

We commend your leadership in addressing serious problems resulting from continued increases in the premiums paid to the Pension Benefit Guaranty Corporation (PBGC) by sponsors of single-employer defined benefit pension plans. Your authorship of the *Rightsizing Pension Premiums Act of 2017* (H.R. 3596), and the significant bipartisan support it has received, demonstrate valuable progress in restoring order and logic to the process for determining premiums and addressing the excessive levels to which premiums have risen in recent years. We would like to share suggestions regarding the legislation, as described below, based on feedback from our member companies, and we look forward to working with you.

The American Benefits Council (Council) represents nearly 200 of the nation's Fortune 500 companies and many other major employers, as well as organizations that support employers of all sizes. Collectively our members either directly sponsor or provide services to more than 100 million Americans participating in employer-sponsored retirement and health plans.

The members of the Committee on Investment of Employee Benefit Assets (CIEBA) are the chief investment officers of more than 100 of the Fortune 500 companies who individually manage and administer corporate retirement plan assets. Collectively, CIEBA members either provide services to or directly sponsor plans and manage as fiduciaries over \$2 trillion of retirement assets on behalf of 15 million participants, representing a very significant portion of the largest private defined benefit plans in the United States.

1. The financial condition of the single-employer guarantee program is strengthened by responsible budget protections contained in the Rightsizing Pension Premiums Act.

PBGC premiums assessed on pension plan sponsors have risen frequently and dramatically in recent years, despite PBGC's own near-term projections of a large surplus in its single-employer guarantee program. As of September 30, 2017, the PBGC reported assets of \$106.2 billion and liabilities of \$117.1 billion for a net deficit of \$10.9 billion.

It is important to note that the reported deficit would be substantially lower if PBGC used various assumptions that private-sector employers are required by law to use in determining the funded status of the pension plans they sponsor. Even with overly-conservative assumptions, the PBGC's FY2016 Projections Report, issued a few months ago, projects that the single-employer program will no longer be in a deficit position in 2022 and will, in fact, have a surplus of \$9.6 billion in 2026.

Notwithstanding the projected surpluses for the PBGC single-employer program, premiums have risen excessively in recent years. A significant reason for the repeated premium increases is that federal budget rules inappropriately permit premium revenue to be counted in offsetting government spending that is wholly unrelated to the pension system, even though the premiums may only legally be used by the PBGC. Consequently, raising PBGC premiums has become a frequent "fictional pay-for" for other unrelated federal spending.

This inappropriate budget practice has not only driven up the cost of premium obligations for employers, it has also injected tremendous unpredictability into the system, since premiums are increased for reasons having nothing to do with PBGC's financial status. These added costs and unpredictability have compelled many pension plan sponsors to pursue strategies to reduce their exposure, including stopping the voluntary sponsorship of their defined benefit plan and exiting the pension system altogether.

The negative impact of recent premium increases is illustrated in the most recent report from the PBGC's Participant and Plan Sponsor Advocate, which referenced a study that found:

When considering what can be done to stem the growing de-risking tide, levels of PBGC premiums are undeniably a key factor. This study has found that reducing PBGC premium levels or stemming their rapid growth is likely to decrease de-risking activity, specifically risk transfer ... A reduction in future PBGC premiums would have a significant beneficial impact on preserving the remaining plans in the defined benefit pension universe.

The prudent response to this problem has been a proposal providing that, in determining budget points of order, PBGC premium increases would be removed from the unified federal budget. This would nullify the incentive for Congress to raise premiums unrelated to the PBGC's needs. That solution is embodied in the *Pension and Budget Integrity Act of 2017* (H.R. 761), sponsored by Representatives James Renacci (R-OH), Mark Pocan (D-WI), Derek Kilmer (D-WA), Mike Kelly and Larry Bucshon (R-IN), and S. 270, sponsored by Senators Mike Enzi (R-WY), Lamar Alexander (R-TN), Rob Portman (R-OH) and Johnny Isakson (R-GA). Many of our member plan sponsors have expressed to us their appreciation that you have incorporated the provisions of the *Pension and Budget Integrity Act* into the *Rightsizing Pension Premiums Act*.

It is very important to underscore that this responsible budgetary provision of H.R. 3596 makes two important changes. It precludes PBGC premium increases from being used for unrelated government expenditures and ensures that future premium decreases would similarly not have adverse federal budgetary effects. This reflects completely rational budget policy given that premiums paid to the PBGC cannot actually be used for any other government purpose.

2. The Council and CIEBA support lower premiums for all employers.

We recognize and appreciate that H.R. 3596 seeks to reduce premiums for all pension plan sponsors, given the continually improving financial condition of the PBGC's single-employer guarantee program. The Council and CIEBA agree with you that premiums should be immediately lowered for all employers, including small employers and the cooperative and charitable employer plans (Cooperative and Small Employer Charity or CSEC plans). In addition, based on actuarial input we have received, we are pleased that the bill would also immediately lower premiums for large employers because the average funded status for PBGC's single-employer program for the fiscal years ending in 2016 and 2017 would be at least 90% funded (and possibly 100% funded). This determination is based on information included in the PBGC's annual report and the standards for determining PBGC's funded status using Congress' current law rules for private pension plans under the *Pension Protection Act of 2006*, without pension smoothing, as set forth under the bill. For many Council and CIEBA members, lower premiums and the responsible budget change noted above, are the most important features of the legislation.

However, some of our members have raised a concern that under the legislation premiums are determined differently for large and small employers. While the amount of the lower premiums for small employers and CSEC plans would be set forth in the statute, all other employers, such as those sponsored by some of our major employer members, would have their premiums reduced based on the average funded status for PBGC as discussed above.

Among the members that have raised this concern, some strongly believe that a bifurcated approach to reducing premiums is not needed to address the recent dramatic increases in premiums, especially since guaranteed pension benefits provided to retirees and beneficiaries are the same for all single-employer plans. In addition, some are concerned that the bifurcated approach may lead to an increase in premiums in the future through legislation directed only at large employers. This would, of course, be contrary to your objective to provide broad PBGC premium relief.

The Council and CIEBA hope to work with you on this legislation to achieve the broadest possible premium relief for all pension plan sponsors, without regard to the size of the sponsoring organization. We also hope to work with you in the future to address other defined benefit pension and premium-related issues.

The Council and CIEBA applaud you for focusing on a serious problem that has contributed to the decline of defined benefit pension plans, which are a source of retirement income for millions of Americans.

Thank you for the opportunity to work with you in a constructive manner to ensure passage of legislation that restores logic and consistency to the way in which PBGC premiums are determined, and which provides much-needed relief to all pension plan sponsors.

Sincerely,



Lynn D. Dudley
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Dennis Simmons
Executive Director
Committee on Investment of Employee
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