



AMERICAN BENEFITS
COUNCIL

April 15, 2016

The Honorable Jim Renacci
U.S. House of Representatives
328 Cannon House Office Building
Washington, DC 20515

The Honorable Mark Pocan
U.S. House of Representatives
313 Cannon House Office Building
Washington, DC 20515

Dear Representatives Renacci and Pocan:

On behalf of the American Benefits Council (Council), I am writing to thank you for your strong leadership in introducing the Pension and Budget Integrity Act of 2016 (PBIA). As strong supporters of the voluntary employer-sponsored retirement plan system, we support your efforts to protect the defined benefit plan system and the millions of Americans who are currently benefiting or will benefit from these plans.

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

As you know, Congress has enacted increases of the Pension Benefit Guaranty Corporation (PBGC) single-employer premiums three times in the last four years. The treatment of these PBGC premium increases for budget purposes is inconsistent with sound economic analysis. PBGC premiums are paid to the PBGC and, by law, may only be used by the PBGC to support pension plan participants. But repeatedly over the years, and again in the Bipartisan Budget Act of 2015, Congress has used PBGC premium increases to support spending by other parts of the federal government, despite the fact that it would be illegal to use the premiums for such other spending. In other words, these increases mask true deficit spending. The PBIA would take PBGC premiums off budget so they are no longer counted in general fund revenue. This would eliminate the incentive for Congress to raise PBGC premiums in order to pay for unrelated programs.

The single-employer PBGC premium increases will have adverse effects on the defined benefit pension system and the PBGC itself. In 2014, Quantria Strategies

prepared a report for the Council¹ in which it found that PBGC premium increases “are not only unnecessary, but they also threaten the long-term viability of both the defined benefit ... pension system and the PBGC’s plan termination insurance program by further driving away employers that present no risk to the system.” As employers are compelled to leave the pension system, the group of plan sponsors paying premiums to the PBGC will shrink dramatically, leaving a smaller and smaller number remaining to support the agency.

This same sentiment was expressed with regard to single employer plans in the PBGC report issued in connection with the President’s budget. The Participant and Plan Sponsor Advocate has also expressed concern about PBGC premium increases. In addition, the PBGC has stated that its pension modeling system “does not model the potential for plans to discharge any significant part of their obligations by purchasing annuities through insurance companies and/or paying lump sums” (i.e., exactly the type of transactions that legitimately are being contemplated by almost half the sponsors of large defined benefit plans in the country.) PBGC further acknowledged that these transactions can “[reduce] premium receipts” and need to be studied: “PBGC intends to investigate this trend in the future.” In short, PBGC acknowledges that exits from the pension system can affect the agency’s financial health.

The findings in the Council’s report were also confirmed by a 2015 poll highlighted in a PLANSPONSOR Magazine article, which found that almost half of all sponsors of large defined benefit pension plans have taken steps to exit the system in whole or in part. And the same poll found that the biggest reason for such exits is PBGC premium increases. In light of this, it is imperative that Congress take steps to protect the premium base such as passing your timely legislation.

Although the previously referenced PBGC premium increase legislation was included to cover spending for other parts of the bills, a review of PGBC publications reveals that such increases are not necessary to support the single employer termination insurance system. PBGC’s most recent Projections Report with respect to the single employer termination insurance program, released in October, states:

- There is a 43.4% chance that PBGC will have a surplus in 2024. If interest rates are ½ percentage point higher than expected, the chances of a surplus rise to 54.2%.
- PBGC ran 5,000 simulations for the next 10 years. PBGC did not run out of money in any of them.
- The only reason PBGC projects a probable small deficit in 2024 is that PBGC adopted a set of mortality tables issued by the Society of Actuaries (SOA).

¹ [Further PBGC Premium Increases Pose Greatest Threat to Pension System](#) (June 23, 2014)

However, subsequent to the PBGC projections, the SOA has acknowledged that those prior tables were incorrect, and has issued new tables that would reduce liabilities.

The PBIA is much-needed common-sense legislation that will bring honesty and accountability back to the budget process. Again, we really appreciate your leadership on this issue and strongly support your legislation.

Sincerely,

A handwritten signature in black ink that reads "Lynn D. Dudley". The signature is written in a cursive, flowing style.

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