AMERICAN BENEFITS COUNCIL

October 6, 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

Dear Leader McConnell and Minority Leader Schumer:

Single-employer pension funding stabilization is urgently needed. The current crisis has created very significant challenges for defined benefit pension plans and plan sponsors. The combination of the continuation and further drop in interest rates, coupled with a volatile stock market and sharply reduced company revenue that many companies have experienced, threatens the economic health and even viability of some defined benefit plan sponsors, including those in the supply chain of many other companies.

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. The Council's 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 funding stabilization problem touches companies across the country in diverse industries and it is directly related to the pandemic. Many companies have experienced major disruption to their business operations, increased costs, and reduced company revenue. This is a critical reason why companies need single employer pension funding stabilization: they simply cannot afford to make the enormous contributions required under current law. The Council's member companies have provided testimonials describing the impact of the pandemic from drops in demand and sales, temporary shutdowns, reduction in supply, furloughs and layoffs. All of this is happening at the very same time that pension funding obligations are increasing due to an abnormal environment.

Two proposals included in the Heroes Act passed by the House of Representatives this past week would provide much-needed relief to many companies that maintain single-employer defined benefit pension plans. 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 pension liabilities, including those attributable to the crisis, over 15 years instead of seven years.

An uptick in the market cannot solve the problem. For funding purposes, many companies are facing material losses in plan asset values. Given that the existing pension funding rules presume that there will be sizeable growth in pension plan assets, even companies whose plan assets are breaking even for the year are thus suffering these material losses for funding purposes. In light of the devastating effect of the pandemic on company revenues, these losses, combined with historically low interest rates, are putting unbearable pressure on defined benefit plan sponsors. It could take years for these companies to recover.

The funding stabilization proposals can be made without harming the Pension Benefit Guaranty Corporation (PBGC) to which employers pay premiums and in which employers are stakeholders. In fact, based on the recent Congressional Budget Office report, the PBGC's financial condition would improve substantially if the proposals described above were enacted. Similarly, these proposals would not cost the U.S. government anything if enacted.

Time is of the essence. We urge Congress to pass funding reforms as soon as possible. These reforms are broadly supported by stakeholders, including policymakers, companies and participants because they would greatly enhance American companies' ability to invest in their employees and their businesses in this critical time.

Sincerely,

Lynn D Dudley

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

cc: All members, U.S. Senate