July 14, 2016

The Honorable Mike Enzi
U.S. Senate
379A Senate Russell Office Building
Washington, DC 20510

The Honorable Johnny Isakson
U.S. Senate
131 Russell Senate Office Building
Washington, DC 20510

The Honorable Lamar Alexander
U.S. Senate
455 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Enzi, Isakson and Alexander:

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 defined benefit pensions 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 – from an accounting perspective – applied PBGC premium increases to offset spending by other parts of the federal government, despite the fact that it would be illegal to use the actual premium revenue for such other spending. Not only does this practice impose unwarranted burdens on employer sponsors of pension plans, 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 to raise PBGC premiums in order to offset the cost of unrelated programs.

A 2014, Quantria Strategies report prepared for the Council[1] 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 fewer and fewer remaining to support the agency and the millions of retirees the PBGC protects.

This same concern about the adverse impact of premium increases for single-employer pensions was expressed in the PBGC report issued in connection with President Obama's Fiscal Year 2017 budget proposal. The PBGC's Participant and Plan Sponsor Advocate has also expressed concern about premium increases. Moreover, the PBGC has acknowledged that it 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 recognizes 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[2] 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 departures from the pension system is PBGC premium increases. In light of this, it is imperative that Congress take steps to protect the premium base; and your legislation is a vital part of that effort.

A review of PBGC publications reveals that premium 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 2015, states:

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

[2] MetLife's 2015 Pension Risk Transfer Poll (October 22, 2015)

- 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 did not exhaust the single employer insurance program for the next 10 years under <u>any</u> of the 5,000 simulations the agency performed.
- The only reason PBGC projects a probable small deficit in 2024 is that the agency adopted a set of mortality tables issued by the Society of Actuaries (SOA). 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 help bring honesty and accountability back to the budget process. We commend your leadership on this issue and look forward to working with you to help enact this legislation.

Sincerely,

Lynn D. Dudley

Lynn D. Dudley,
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