AMERICAN BENEFITS COUNCIL

November 18, 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:

Single-employer pension funding stabilization is urgently needed. For many companies that maintain defined benefit pension plans the current crisis has created the perfect storm. The combination of the continuation of and further drop in low interest rates, coupled with sharply reduced company revenue that many 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 and retirees and their 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 funding stabilization problem touches companies across the country in diverse industries and 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.

Council 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 has occurred at the very same time that pension funding obligations are increasing due to an abnormal economic environment.

Two proposals passed by the U.S. House of Representatives earlier this year and awaiting Senate action 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.

Companies broadly support these changes as noted in joint letters to Congress, including CEOs emphasizing what a high priority this issue is. Five major actuarial firms also wrote to Congress urging it to take action to address pension funding concerns and endorsing substantive funding stabilization proposals. A study undertaken by the Council of over 700 companies with defined benefit pension plans concludes that taking action will save hundreds of thousands of jobs.

An uptick in the market cannot solve the problem faced by single-employer pension plans. 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 we pay premiums and in which we are stakeholders. In fact, based on the recent A tax estimate from a Joint Committee on Taxation report and a PBGC estimate from CBO, the PBGC's financial condition would improve substantially – by $7 billion – if the proposals described above were enacted. Similarly, these proposals would not cost the U.S. government anything if enacted. On the contrary, the proposals would raise $17 billion.

Time is of the essence. The longer we wait, the more people will lose their jobs, as companies must plan for huge funding obligations. We urge Congress to pass funding reforms before the end of the year. These reforms are broadly supported by stakeholders, including policymakers in both parties, plan sponsors and participants, because they would greatly enhance American companies' ability to invest in their employees and their businesses during this critical time.

Sincerely,

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