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. 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 current crisis has created very significant challenges for defined benefit pension plans and plan sponsors. Pension plans were already under significant pressure due to the continuation of historically low interest rates, which cause the present value of pension liabilities to be treated as very high. But then the plunging stock market caused plan asset values to plummet at the same time that business revenues are down. This combination threatens the economic health and even viability of some companies, including those in the supply chain of many other companies.

In this context, the Council developed two proposals that were included in the House bill that was part of the process that led to the Coronavirus Aid, Relief, and Economic Security (CARES) Act. One proposal extended and enhanced “interest rate
stabilization” which adjusts current interest rates to be closer to historical norms. The other proposal allowed employers to pay for pension liabilities, including those attributable to the crisis, over 15 years, instead of seven years.

It is our understanding that concerns were raised with respect to these proposals on the grounds that they could adversely affect the Pension Benefit Guaranty Corporation (PBGC). We wanted to follow up to address those concerns.

• A “perfect storm” has sent funding obligations soaring at expense of jobs and business investment. The pension funding rules are inadvertently structured to create huge burdens in difficult economic times. In hard times like these, interest rates fall, which causes the exact same pension liabilities to be valued as far larger. Pension liabilities are long-term obligations, stretching out over more than 50 years, and today’s historically low interest rates have no relationship to a plan’s ability to pay benefits over that period. Moreover, during the crisis, the value of plan assets go down, and revenue streams are reduced. This creates a perfect storm of huge funding obligations at exactly the time companies need to be investing in their people and their business.

• Nationally, funding obligations scheduled to double. A new study by the Council of 703 mostly large companies shows that funding obligations are scheduled to increase almost 100% next year, diverting billions of dollars away from jobs.

• The original House version of the CARES Act would have saved over $24 billion in one year and almost 500,000 jobs according to the study. As noted, two proposals that were included in the House bill that was part of the process that led to the CARES Act would address this problem. One proposal extended and enhanced “interest rate stabilization” which adjusts current interest rates to be closer to historical norms. The other proposal allowed employers to pay off pension liabilities, including those attributable to the crisis, over 15 years, instead of seven years. These two proposals would save American businesses over $24 billion next year, and potentially save almost 500,000 jobs. These proposals also ensure that all pension benefits are fully funded, but simply over a more manageable time period.

• Why is concern about adverse impact on PBGC not warranted? As noted, it is our understanding that these proposals raised some concerns on the grounds that they could adversely affect the PBGC, which insures pension plans. These concerns are unfounded.

  o Only company insolvencies hurt the PBGC. There will be far more insolvencies without funding stabilization. PBGC only assumes single-employer plan liabilities of companies going out of business. Undeniably, there will be far more insolvencies without funding stabilization.
There is concrete evidence of no harm to the PBGC. Both of the proposals described above have been enacted before. In 2010, Congress allowed 15-year amortization for two years. In 2012, Congress authorized interest rate smoothing, which has been in effect since then. In 2009, before either of these proposals took effect, PBGC’s single employer program had a deficit of $21.1 billion. In 2019, after two years of 15-year amortization and seven years of interest rate smoothing, PBGC’s single employer program has a surplus of $8.7 billion. Certainly, many factors contributed to the improvement of PBGC’s financial condition, but this evidence certainly disproves that the two proposals are new untried provisions that pose grave risk to the PBGC.

We will see embarrassment and additional harm if funding rules derail efforts to fight the virus. It will be an embarrassment to us all if companies working to address the health care crisis go bankrupt due to outdated and inflexible funding rules, which will almost certainly happen without funding stabilization.

According to PBGC itself, its single-employer program is very overfunded. According to PBGC, its single employer program has, as noted, a surplus of $8.7 billion, and is projected to have a surplus of $26.7 billion by FY 2028. In light of projected increases in PBGC revenue due to the crisis, this surplus is likely to grow much faster.

PBGC itself has explicitly recognized that funding relief helped PBGC’s financial condition. For example, in its 2006 annual report, PBGC stated explicitly that the airline funding relief provided in the Pension Protection Act of 2006 improved its financial condition by $8 billion.

We urge Congress to include the funding reforms from the House version of the CARES Act, which would greatly enhance American companies’ ability to invest in their employees and their businesses in this critical time.

Sincerely,

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

cc: All members of Congress