December 8, 2008

<table>
<tr><td>The Honorable George Miller
Chairman,
U.S. House of Representatives
Committee on Education and Labor</td><td>The Honorable Howard P. “Buck” McKeon
Ranking Member,
U.S. House of Representatives
Committee on Education and Labor</td></tr>
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Dear Chairman Miller and Ranking Member McKeon:

The undersigned represent many of the major consulting firms that provide actuarial services to single employer defined benefit pension plans and their sponsors in the United States. This letter summarizes our collective views and observations regarding the defined benefit pension funding issues caused by the current crisis in the financial markets.

Some disagreement has emerged over whether or not funded status will be a problem for single employer defined benefit pension plans in 2009. We have seen reliable, broad data identifying an imminent problem. At the end of 2007, many plan sponsors had reached in excess of 100% funded status. Since then, based on equity declines of over 40% and a weak bond market, the typical pension plan has seen a very significant decline in funded status, even after reflecting the mitigating effect of high interest rates in the third quarter and in the beginning of the fourth quarter of 2008.

The problem is complicated by funding requirements in the Pension Protection Act (“PPA”), and also the imposition of certain restrictions on plans below the 80% and 60% funding levels.

For the majority of employers on a calendar year basis, the liability for additional contributions will fix based on where the market and interest rates stand on December 31, 2008. Even though the 2009 contributions will not have to be made immediately, the obligation fixes on that date, and responsible financial managers make business decisions based on significant cash obligations known to apply in the future. Companies will make those decisions now, or early in 2009, in order to ensure they have the cash to meet substantial 2009 funding requirements.

Thus, the timing of the PPA funding requirements together with the current economic crisis may create new difficulties not only for plan sponsors but also for plan participants all over the country, compounding what is already one of the most difficult economic situations in decades with plan freezes, employee layoffs, and other actions with serious economic and workforce implications.

After the current crisis subsides, pensions need to be fully funded according to the full PPA rules. However, application of the full PPA rules in 2009 does not give plan sponsors enough time to maintain their pension plans and protect participants. The government should consider providing limited transition relief to address these issues.

We are aware of the proposals to provide employers relief from the dramatic and unanticipated effects on their businesses and their people. The current package proposed by the Senate retirement policy leaders includes:

- An adjustment to the asset averaging methodology allowed under the current interpretation of the asset provisions contained in the proposed funding regulations. This provision has been part of prior Technical Corrections bills.
- Temporary relief from one of the benefit restrictions for a limited category of plans.
- Deferral for some employers of the 100% funding target under PPA (if they had otherwise satisfied the 2008 transition rule).

We believe adoption of these provisions will certainly be helpful, but they are not enough to provide the type and scope of relief that many sponsors need. The following additional temporary items would also help significantly in addressing sponsors' critical problems, while maintaining sound actuarial standards for plan funding:

- Widen the 90% to 110% corridor on the average asset value.
- Specifically allow employers more flexibility in selecting interest rate methods (i.e., spot rate vs. 24-month average rates) and in selecting asset methods.

We are not suggesting any form of financial assistance nor arguing that full funding of pension plans is not appropriate nor expected. We are merely asking for time in order to address the abrupt unprecedented increase to and volatility of funding requirements.

We look forward to continued dialogue on these very urgent short-term issues.

Sincerely,

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CC: House Committee on Ways and Means
Senate Committee on Health, Education, Labor and Pensions
Senate Committee on Finance