Dear Colleague:

As you work to arrive at a final pension reform bill, we wanted to flag three critical funding issues for your continuing consideration: transition, at-risk assumptions, and asset smoothing.

TRANSITION. First, we are very concerned that the final bill provide adequate transition to the new 100% funding target. We asked a national consulting firm to compare, in the case of a plan that is 90% funded under current law, the funding obligation under current law and the funding obligation under the new legislation. We asked the firm to assume no credit balance and a typical mix of active employees, deferred vesteds, and retirees. We tried to isolate the funding target issue by not taking into account other new rules under the legislation (such as taking lump sums into account in determining the plan's liability).

What we found is that, if the new 100% target is imposed without a phase-in, the new legislation would increase the required contribution for this well-funded plan by 260% in the first year. For non-DRC plans that are, for example, 85% funded under current law, the difference will be even greater. This is not reasonable and will materially affect the ability of companies to operate their businesses and to maintain a plan. It is important to recognize that the plan's normal cost is a big component of this obligation. Without the normal cost, the funding obligation for the typical plan in our example would be significantly reduced. In this context, a company faced with an outsized increase in costs may have little choice but to freeze or eventually terminate its plan. None of the bill's other provisions may matter to a company if this issue is not resolved in the final bill. And these are exactly the type of healthy plans that need to stay in the system in order to bolster retirement security and preserve the PBGC's premium base.

The House bill provides a valuable safeguard for plans that already meet the bill's funding targets by providing that a plan that meets the funding targets (including credit balances in the assets) does not need to create a new amortization schedule. But many other plans, such as the typical plan described above, also need a transition such as that provided in the Senate bill whereby the funding targets are phased in.

Accordingly, we urge you also to adopt the Senate structure under which all plans are provided a transition to the 100% funding target. Since, however, the short three-year transition in the Senate bill is not a sufficient period to increase funding so dramatically while preserving a company's business priorities, a transition of at least five years is needed.

AT-RISK ASSUMPTIONS. Under both bills, at-risk plans are required to assume that, for at least some period of time, 100% of employees eligible for subsidized benefits retire at the time they could receive the most expensive benefit. This required assumption bears no relationship to actual retirement patterns in the

real world and is, therefore, a wholly inaccurate assumption. The same national consulting firm sampled 50 of their plans that have a single age where benefits are most valuable. Overall, the average retirement rate at the "most valuable age" was approximately 20%. For plans where that age was below age 62, the average retirement rate was around 10% and it did not exceed 45% for any plan. In this context, it seems arbitrary, unfair, and inaccurate to require assumed retirement rates of 100%.

SMOOTHING. Some have argued that there is little difference between 24-month smoothing and 36-month smoothing. This is not correct. Please see the attached paper on smoothing and the material difference between the two smoothing periods. The need for 36-month smoothing is particularly acute with respect to assets. Current law provides for 48-months of smoothing. Changing to 24-month smoothing is a radical shift that will dramatically increase the volatility and undermine the predictability of funding requirements imposed on sponsoring employers.

We appreciate, once again, the attention and consideration that you have consistently provided to our concerns throughout this long debate. We ask that these issues be favorably resolved in Congress's final bill.

Sincerely,

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