

September 19, 2007

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
Main Treasury Building, Room 3330
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson:

We are writing you today regarding the implementation of a fundamental component of the Pension Protection Act of 2006 (the "PPA").

The issue relates to the reform of the rules regarding the funding of defined benefit plans. During the PPA debate, one of the most intensely discussed public policy issues in the PPA related to "smoothing". Under prior law, the asset values and interest rates used in determining funding obligations could be "smoothed" over a four-year period. After a full debate of this issue, the PPA reduced the smoothing period to two years. This change reflected a carefully considered balancing of business' critical need for predictability with the government's desire for spot valuation information. Throughout the legislative process, our organizations emphasized the critical importance of retaining some degree of smoothing of asset values to protect against unmanageable and unnecessary volatility and unpredictability in required pension contributions.

It is our understanding that Treasury is now considering an interpretation of the PPA language that would effectively preclude any smoothing of assets. The PPA used the term "averaging" with respect to asset valuation. We understand that guidance under consideration may state that averaging is not the same as smoothing, but rather is something very different. We urge you to reject that approach. The form of averaging under consideration would systematically undervalue assets by a very significant amount, thus artificially inflating funding obligations. As a result, companies would generally find the asset averaging rules unworkable. They would effectively be forced to use the only other available asset valuation methodology (i.e., spot valuations), which, in turn, would lead to significant unpredictability.

Treasury's possible interpretation would thus effectively eliminate asset smoothing. We do not think this was Congress' intent and it is inconsistent with our view of the PPA. Our fear is that if Treasury guidance effectively eliminates smoothing, that guidance will send shock waves through the defined benefit plan community. Many employers that have been resisting the trend toward freezing benefits will decide to join that trend.

Asset smoothing was a cornerstone PPA issue for each of our organizations and we urge you to ensure that new Treasury regulations do not eliminate it.

Sincerely,

American Benefits Council
American Society of Pension Professionals & Actuaries
Business Roundtable
Committee on Investment of Employee Benefit Assets
ERISA Industry Committee
Financial Executives International's Committee on Benefits Finance
HR Policy Association
National Association of Manufacturers
U.S. Chamber of Commerce

September 19, 2007

The Honorable John A. Boehner
House Minority Leader
H-204 Capitol Building
Washington, DC 20515-6537

Re: Asset Smoothing for Defined Benefit Plan Funding Purposes

Dear Mr. Leader:

We are writing you today regarding a critical issue that needs to be clarified to implement a fundamental component of the Pension Protection Act of 2006 (the "PPA").

The issue relates to the reform of the rules regarding the funding of defined benefit plans. As you know, one of the most intensely discussed public policy issues in the PPA related to "smoothing". Under prior law, the asset values and interest rates used in determining funding obligations could be "smoothed" over a four-year period. After a full debate of this issue, the PPA reduced the smoothing period to two years. This change reflected a carefully considered balancing of business' critical need for predictability with the government's desire for spot valuation information.

It is our understanding that Treasury is considering the publication of guidance that would effectively eliminate smoothing of assets as a viable option. The PPA used the term "averaging" with respect to asset valuation. We understand that the guidance under consideration may state that averaging is not the same as smoothing, but rather is something very different. The form of averaging under consideration by Treasury would systematically undervalue assets by a very significant amount, thus artificially inflating funding obligations. To avoid such artificially large obligations, companies would generally be compelled to not use asset averaging. Companies would be effectively forced to use the other available asset valuation methodology, i.e., spot valuations. Spot valuations would, of course, give rise to tremendous unpredictability.

Treasury's possible interpretation would thus effectively eliminate asset smoothing. We do not think that this was Congress' intent. Attached is a letter that we have sent to Secretary of the Treasury Paulson on this issue, urging the Treasury to reject the averaging interpretation that is under consideration.

Our fear is that if Treasury guidance effectively eliminates smoothing, as we suspect it will, that guidance will send shock waves through the defined benefit plan community. And many employers that have been resisting the trend toward freezing benefits will decide to join that trend. Clarifying legislation several months later could be too late to reverse some such decisions. As a result, we urge you to promptly clarify this issue as part of the technical corrections process.

Smoothing was a cornerstone PPA issue. We urge you to reaffirm Congress' intent to retain a degree of smoothing as soon as possible, and thereby avoid the adverse effects that could ensue from a Treasury announcement that asset smoothing has been eliminated.

Sincerely,

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Actuaries
Business Roundtable
Committee on Investment of Employee Benefit
Assets

ERISA Industry Committee
Financial Executives International's Committee on
Benefits Finance
HR Policy Association
National Association of Manufacturers
U.S. Chamber of Commerce

September 19, 2007

The Honorable Max Baucus
Chairman, Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Charles Grassley
Ranking Member, Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Re: Asset Smoothing for Defined Benefit Plan Funding Purposes

Dear Chairman Baucus and Ranking Member Grassley:

We are writing you today regarding a critical issue that needs to be clarified to implement a fundamental component of the Pension Protection Act of 2006 (the "PPA").

The issue relates to the reform of the rules regarding the funding of defined benefit plans. As you know, one of the most intensely discussed public policy issues in the PPA related to "smoothing". Under prior law, the asset values and interest rates used in determining funding obligations could be "smoothed" over a four-year period. After a full debate of this issue, the PPA reduced the smoothing period to two years. This change reflected a carefully considered balancing of business' critical need for predictability with the government's desire for spot valuation information.

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September 19, 2007

The Honorable Edward Kennedy
Chairman
Committee on Health, Education,
Labor and Pensions
644 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Michael Enzi
Ranking Member
Committee on Health, Education,
Labor and Pensions
835 Dirksen Senate Office Building
Washington, DC 20510

Re: Asset Smoothing for Defined Benefit Plan Funding Purposes

Dear Chairman Kennedy and Ranking Member Enzi:

We are writing you today regarding a critical issue that needs to be clarified to implement a fundamental component of the Pension Protection Act of 2006 (the "PPA").

The issue relates to the reform of the rules regarding the funding of defined benefit plans. As you know, one of the most intensely discussed public policy issues in the PPA related to "smoothing". Under prior law, the asset values and interest rates used in determining funding obligations could be "smoothed" over a four-year period. After a full debate of this issue, the PPA reduced the smoothing period to two years. This change reflected a carefully considered balancing of business' critical need for predictability with the government's desire for spot valuation information.

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Smoothing was a cornerstone PPA issue. We urge you to reaffirm Congress' intent to retain a degree of smoothing as soon as possible, and thereby avoid the adverse effects that could ensue from a Treasury announcement that asset smoothing has been eliminated.

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September 19, 2007

The Honorable Charles Rangel
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Jim McCrery
Ranking Member
Committee on Ways and Means
1139E Longworth House Office Building
Washington, DC 20515

Re: Asset Smoothing for Defined Benefit Plan Funding Purposes

Dear Chairman Rangel and Ranking Member McCrery:

We are writing you today regarding a critical issue that needs to be clarified to implement a fundamental component of the Pension Protection Act of 2006 (the "PPA").

The issue relates to the reform of the rules regarding the funding of defined benefit plans. As you know, one of the most intensely discussed public policy issues in the PPA related to "smoothing". Under prior law, the asset values and interest rates used in determining funding obligations could be "smoothed" over a four-year period. After a full debate of this issue, the PPA reduced the smoothing period to two years. This change reflected a carefully considered balancing of business' critical need for predictability with the government's desire for spot valuation information.

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September 19, 2007

The Honorable George Miller
Chairman
Committee on Education and Labor
2181 Rayburn House Office Building
Washington, DC 20515

The Honorable Howard McKeon
Ranking Member
Committee on Education and Labor
2101 Rayburn House Office Building
Washington, DC 20515

Re: Asset Smoothing for Defined Benefit Plan Funding Purposes

Dear Chairman Miller and Ranking Member McKeon:

We are writing you today regarding a critical issue that needs to be clarified to implement a fundamental component of the Pension Protection Act of 2006 (the "PPA").

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