

**RAISING REVENUE AND SAVING JOBS
BY RESOLVING A CONFLICT BETWEEN
PENSION POLICY AND ECONOMIC POLICY**

As discussed in more detail below, our national economic policy to keep interest rates low has resulted in artificially high pension plan funding obligations. This is putting unjustified pressures on American businesses. We propose to address this issue by permitting companies to use more stable and historically accurate interest rate assumptions in determining funding obligations.

Similarly, the current-law requirements to amortize long-term liabilities over seven years have created unmanageable volatility in funding requirements since the requirements have taken effect. It is critical that we benefit from the lessons of the past few years and modify the amortization rules to reflect the long-term nature of pension plan liabilities.

The proposal set forth below has the dual appeal of saving jobs and raising revenue, which makes its inclusion appropriate in either a jobs bill or a debt-reduction bill.

Background.

Interest rates. In order to address the critical challenges facing our economy, the government has made great efforts to keep interest rates at historically low levels. This is creating extraordinary pressures on pension plans and thus will not have the intended helpful effect on pension plan sponsors.

For pension funding purposes, plan liabilities are calculated by discounting projected future payments to a present value by using legally required interest rates based on corporate bonds: the lower the rate, the greater the liability. Thus, today's artificially low rates are triggering artificially high pension liabilities.

For example, in the case of a typical pension plan, the effective interest rate required by law has dropped by approximately 70 basis points over the past year, which increases liabilities by approximately 10%. Thus, a plan with \$7 billion of liabilities a year ago would have \$7.7 billion of liabilities today. That translates into an additional funding shortfall of \$700 million. That in turn triggers a company obligation to make an additional contribution of approximately \$119 million per year for seven years. That \$119 million is not needed to pay benefits; that obligation is simply the result of artificially low interest rates that have no relationship to the plan's ability to pay long-term benefits.

On a national basis, preliminary indications are that, in large part due to the interest rate decline, required pension funding contributions for 2012 will be far greater than the amount required for prior years, unnecessarily diverting billions of dollars away from job retention and creation and from business investments. Reducing those pension contributions not only saves jobs, but it is also a revenue raiser: it increases tax revenues (by decreasing plan contributions) and raises PBGC revenues (by increasing premium revenue).

Amortization periods. Under the Pension Protection Act of 2006 (the “PPA”), funding shortfalls are required to be amortized over seven years. In 2006, that appeared to be an appropriate amortization period. But the last few years have opened everyone’s eyes to the dramatic volatility that is possible with respect to funding obligations and the markets. Seven-year amortization created unmanageable obligations following the 2008 downturn and is threatening to create even more unmanageable obligations for 2012 and subsequent years. If the PPA’s amortization period has created multiple severe problems in just a few years, we need to learn from that. An increase in that amortization period is clearly warranted.

Proposal.

The proposal has two parts: an interest rate component and a modification of the current-law amortization period rules.

Interest rates. With respect to interest rates, we also need to learn from the lessons of the last few years. Economic conditions can change quickly, and interest rates are often maintained at very low levels during difficult economic periods. Under the current funding rules, that will mean that when we encounter a downturn in the economy, interest rates may well fall, exacerbating the problems for pension plan sponsors and undermining any economic recovery by unnecessarily diverting assets away from business investments. This does not make sense, especially since pension plan obligations are long-term obligations.

We need to move to a sounder system for setting interest rates. Why should obligations due over 50 years be calculated based on interest rate movements that may be aberrational and/or attributable to governmental economic policy? It would make far more sense to base interest rates on a long-term period that is consistent with the long-term nature of pension liabilities. Accordingly, for all purposes other than PBGC premiums and valuing lump sum distributions payable to participants, we propose that beginning in 2012, plan liabilities would continue to be determined based on the average interest rates over the preceding two years. However, for purposes of determining such two-year average, any segment rate shall be disregarded to the extent that such segment rate is not within 10% of the average of such segment rates for the 25-year period preceding the current year. This proposal will ensure that temporary fluctuations in interest rates do not have an unjustified effect on funding obligations.

Amortization periods. Under the proposal, funding shortfalls would be amortized in two steps. First, the amount necessary to bring a plan to 80% funded would be amortized over the current-law seven-year period. Second, any other shortfalls would be amortized over 15 years. For example, assume that a plan has liabilities of \$100 million and assets valued at \$70 million. The \$10 million amount needed to bring the plan to the 80% funded level would be amortized over seven years. The remaining \$20 million shortfall would be amortized over 15 years. Plan sponsors would have the option to apply this new amortization prospectively only with respect to future shortfalls. Alternatively, plan sponsors could elect to eliminate existing amortization bases and apply this new system to the total shortfall in 2012.

We believe that this proposal strikes the right balance between (1) ensuring that plans that are less well funded improve their funded status quickly, and (2) reducing the funding volatility that has been created by the current seven-year amortization period.

Overall. To maintain the current funding rules would be to ignore the painful lessons of the last few years. Interest rates are susceptible to artificial fluctuations that can hide the true value of pension liabilities and can result in repeated conflicts between pension policy and economic policy. The proposal would address this conflict by preventing artificially low interest rates from slowing any economic recovery. In addition, short amortization periods for long-term liabilities can impose artificial pressures on businesses to divert assets away from productive use. It is critical that we solve these problems. Our proposal would do exactly that, as well as give American businesses the predictability they desperately need to make business plans.