

April 4, 2011

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

The Honorable Orrin Hatch
Ranking Member, Senate Committee on
Finance
SD-219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Tom Harkin
Chairman, Senate HELP Committee
SD-428 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Enzi
Ranking Member, Senate HELP Committee
SD-428 Dirksen Senate Office Building
Washington, DC 20510

RE: Proposals to Increase PBGC Premiums

Dear Chairmen Baucus and Harkin and Ranking Members Hatch and Enzi:

The undersigned organizations, representing employers who voluntarily provide retirement benefits to millions of Americans, write to express our serious concern with the proposal to raise Pension Benefit Guaranty Corporation (PBGC) premiums that is contained in the Administration's 2012 Budget. Similar proposals that would have also eliminated the public's ability to engage in a policy dialogue with Congress regarding the level of PBGC premiums have been suggested – and rejected – in the past. Quite appropriately, Congress has resisted efforts to weaken its authority in this arena. Moreover, changes of the type and magnitude proposed by the Administration would undermine the defined benefit pension system, hinder the economic recovery and could create an ill-advised precedent of government intrusion into normal business activities.

As we understand it, the Administration's proposal would grant the Executive Branch (through the PBGC Board) the authority to set and adjust the level of premiums that a retirement plan sponsor would pay. In setting those premiums, the PBGC Board would be required to take into account an employer's credit rating, despite serious questions that have been raised in recent years about the methodology used in determining such ratings, and their reliability in certain circumstances. The President's budget estimates the proposal would raise \$16 billion over the next 10 years. The proposal would reflect almost a 100% increase in PBGC premiums, all collected from companies that may or may not pose a risk of transferring their liabilities to the PBGC. We question whether any workable proposal could be constructed to raise additional PBGC premiums of that magnitude. But even a less aggressive premium increase, when added on top of the multi-billion dollar PBGC premium increases that were enacted in 2006, could do irreparable harm to the defined benefit system. As we stated during the debate over the 2006 legislation, the best way to strengthen the PBGC is to keep more employers in the system, not to tax them out of the system.

Proposals that base PBGC premiums on credit ratings would create the potential for a downward corporate spiral that could be very harmful for American workers and the economy. Requiring massive premium increases from companies that are already facing financial difficulties would add further stress

and could force affected employers to reduce their workforce or discontinue providing retirement benefits altogether. Worse yet, for some employers, the increased cash flow burden associated with sudden inflated contribution obligations could force unnecessary bankruptcies with devastating consequences for workers and our economy. That is not in anyone's interest, including the PBGC, which could be forced to assume plan liabilities if the company does not recover.

In addition, a creditworthiness test would inevitably result in the PBGC becoming an entity that makes formal pronouncements about the financial status of American businesses. This role for a government agency would be inappropriate. Leaving aside the question of whether the PBGC can establish accurate mechanisms for measuring and adjusting an employer's credit risk across industries and across the country, even modest year-to-year changes in those government credit ratings could have implications well beyond PBGC premiums, potentially affecting stock prices or the company's access to other credit sources.

We also question the need for such drastic measures, rather than a carefully-crafted approach to premium levels. The PBGC states in its 2010 annual report that "[s]ince our obligations are paid out over decades, we have more than sufficient funds to pay benefits for the foreseeable future." Since there is no immediate crisis, Congress should not relinquish its authority to establish appropriate premium requirements. Instead, Congress should take the time required to examine the PBGC's financial situation more carefully, including an in-depth review of the actual nature of PBGC's deficit, which has been questioned repeatedly.

We understand the pressures that the Committees are facing to address the budget deficits, but significant increases in PBGC premiums must be carefully examined. Premium increases that, in effect, increase a company's tax burden divert resources that could be better spent on plan funding and creating jobs. It also would likely exacerbate the trend of employers moving away from offering pension plans.

Thank you for your prompt consideration of this critically important issue.

Sincerely,

American Benefits Council
Business Roundtable
Education Resources Information Center
Financial Executives International Committee on Benefits Finance
Financial Services Roundtable
Insured Retirement Institute
National Association of Manufacturers
Society of Human Resources Management
The ERISA Industry Committee
U.S. Chamber of Commerce

Cc:

Budget Committee Chairman Kent Conrad
Budget Committee Ranking Member Jeff Sessions

April 4, 2011

The Honorable Dave Camp
Chairman
House Ways and Means Committee
1101 Longworth House Office Building
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
House Ways and Means Committee
1101 Longworth House Office Building
Washington, DC 20515

The Honorable John Kline
Chairman, House Education and the
Workforce Committee
2181 Rayburn House Office Building
Washington, DC 20515

The Honorable George Miller
Ranking Member, House Education and the
Workforce Committee
2181 Rayburn House Office Building
Washington, DC 20515

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The ERISA Industry Committee
U.S. Chamber of Commerce

Cc:

Budget Committee Chairman Paul Ryan
Budget Committee Ranking Member Chris Van Hollen