



AMERICAN BENEFITS COUNCIL

October 14, 2011

Senator Patty Murray
Co-Chair,
Joint Select Committee
on Deficit Reduction
Washington, D.C.

Representative Jeb Hensarling
Co-Chair
Joint Select Committee
on Deficit Reduction
Washington, D.C.

RE: Retirement Plan Issues and Deficit Reduction Measures

Co-Chairs of the Joint Select Committee on Deficit Reduction,

As the Joint Committee on Deficit Reduction considers options to reduce the federal deficit, we urge you and your fellow members to be mindful of the critically important role that workplace retirement plans play in providing financial security to working Americans and the global economy.

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans that cover more than 100 million Americans.

We appreciate that the Committee faces a difficult task in identifying spending cuts and federal revenue measures to reduce the deficit. The Council supports efforts to make the government and the tax code more efficient and effective. However, a number of policy initiatives have been proposed that would destabilize the employer-sponsored benefit system.

Considering the millions of American workers and family members covered by employer-sponsored retirement plans, and the trillions of dollars of investment capital they generate, we urge the Committee to reject proposals that would discourage plan sponsorship or put more Americans at risk in retirement.

DEFINED BENEFIT PENSION PLANS

Many American Benefits Council members sponsor traditional defined benefit pension plans, which provide risk-free, guaranteed income throughout an employee's retirement. These employers are concerned that large increases in premiums payable to the Pension Benefit Guaranty Corporation (PBGC) are unwarranted and will have a negative impact on plans and their participants. PBGC and the Administration have recommended raising premiums on plan sponsors by \$16 billion, while also giving PBGC sweeping authority to set premiums in the future. The Committee should reject this proposal as an element of deficit reduction.

The proposed premium increase is based upon flawed assumptions about PBGC's alleged deficit. This deficit – and the methodology used to calculate it – has not been fully evaluated by Congress. In fact, independent estimates have suggested that the deficit is dramatically overstated.^{1,2}

Even if the deficit were accurate, it is a completely inappropriate basis for determining premiums. While it is certainly fair to require defined benefit pension plan sponsors to pay the cost of the insurance protection they receive from the PBGC, neither Congress nor the PBGC has held a hearing or examined the cost of the protection, making it exceedingly clear that this is simply a tax imposed on corporate sponsors of pension plans as part of an unrelated deficit reduction effort.

Furthermore, it would be a serious mistake for Congress to abdicate its longstanding authority to set premiums or to tie premiums to creditworthiness. Since PBGC was created more than three decades ago, lawmakers have thoughtfully exercised this responsibility with consideration for their corporate and individual constituents, rather than ceding this authority to any agency or by formula. It is plainly unfair to vest one party to a mandatory relationship (i.e. PBGC) with the unilateral authority to decide the amount its customers (i.e. employers) must pay.

Most importantly, the imposition of a costly new premium regime will not materially improve pension plan solvency. The most significant threat to defined benefit plans – and the PBGC – is not underfunding, since both the PBGC and most pension plans have sufficient assets to pay beneficiaries well into the future. The more urgent challenge is the persistent year-to-year volatility in funding obligations. Historically low interest rates have distorted the future value of investments, making healthy pension funds appear less well funded than they truly are.

¹ Optimal Benefit Strategies, LLC, *Promises to Keep: The True Nature of the Risks to the Defined Benefit Pension System*, September 2005.

<http://www.americanbenefitscouncil.org/documents/pbgcdraft092205.pdf>

² Kenneth W. Porter, *Proposed PBGC Changes – A Reality Check*, BNA Pension Benefits Daily, September 14, 2011.

Employers need certainty and predictability in their funding obligations so they can maintain their plans while focusing on their core business. The ideal solution would be to enact funding reform that mitigates excessive swings in interest rates and stabilizes the calculation of funding liabilities. Such measures also have the added benefit of raising federal revenue by increasing the amount of taxable corporate income.

DEFINED CONTRIBUTION PLANS

Employer-sponsored defined contribution arrangements, such as 401(k) plans, are a core element of our nation's retirement system and successfully assist tens of millions of families in accumulating retirement savings. Despite the nation's ongoing economic uncertainty, these plans continue to provide an important source of retirement savings.

The broad coverage and participation in these plans results from the existing tax incentives that motivate employee saving and that encourage employers to maintain and contribute to retirement plans. However, as part of deficit reduction and tax reform, some have suggested fundamental changes to these tax incentives as a means of raising short-term revenue.

The so-called "20-20" proposal, endorsed by the National Commission on Fiscal Responsibility and Reform, suggests lowering the cap on annual employer and employee retirement plan contributions to 20 percent of the employee's compensation or \$20,000, whichever is lower. We urge the committee to reject this and similar proposals.

Any initiative that purports to increase short-term federal tax receipts by redirecting, eliminating, or eroding the existing retirement savings tax incentives achieves those additional taxes largely because individuals are saving less for retirement. Indeed, the Employee Benefit Research Institute has confirmed that the "20/20" proposal would depress retirement savings for *all workers, especially those at low income levels*.³

Such proposals are not only unwise, they are short-sighted. Under standard budgetary methodology, the taxes an employee will pay when he or she retires and starts taking taxable plan distributions generally occur outside the budget window. Proposals that reduce retirement savings today will mean the government actually collects less revenue in years outside the budget window because retirees will have less taxable retirement income. In addition, reduced savings through employer-sponsored plans places additional long-term burdens on federal safety nets such as Social Security. As a

³ Employee Benefit Research Institute, "Capping Tax-Preferred Retirement Contributions: Preliminary Evidence of the Impact of the National Commission on Fiscal Responsibility and Reform Recommendations," Notes, Vol. 32, #7, July 2011.
http://www.ebri.org/pdf/notespdf/EBRI_Notes_07_July-11.TaxCap_UnionHI.pdf

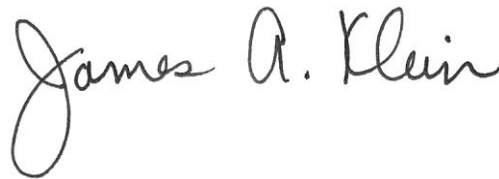
result, any overall budgetary savings that might result would be considerably smaller than the short-term revenue estimates might suggest.

With respect to deficit reduction proposals affecting defined benefit or defined contribution plans, we urge extreme caution. Ill-considered proposals could have severe implications for the many struggling Americans relying on these plans for their financial well-being in retirement.

Any changes to our national retirement savings policy should build upon our existing and successful tax incentive structure so that it works even more effectively to facilitate retirement plan coverage and savings by working families.

Thank you for your careful consideration of our views.

Sincerely,

A handwritten signature in black ink that reads "James A. Klein". The signature is written in a cursive style with a large, looping initial "J".

James A. Klein
President
American Benefits Council

CC: Joint Select Committee on Deficit Reduction