



AMERICAN BENEFITS  
COUNCIL

October 2, 2013

The Honorable Ron Kind  
United States House of Representatives  
Washington, DC 20515

Dear Mr. Kind,

The American Benefits Council (Council) supports the delay of the phase-out of MAP-21 funding stabilization until 2017, as has been recently discussed. This delay conforms the law to the original purpose of MAP-21 – to offset the longer-term actions of the Federal Reserve Board in lowering interest rates, which have the unintended effect of inflating pension liabilities and funding obligations. The Council commends you and other Members of the House of Representatives for considering a proposal that has the effect of both helping to stabilize the costs of maintaining defined benefit pension plans and also raising revenue.

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing employee benefits to workers and retirees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans. We appreciate the long-standing bipartisan commitment in the House of Representatives and Senate to sound pension policy.

Prior to the enactment of MAP-21, pension funding obligations were tied directly to the average of recent corporate bond rates. The Federal Reserve's policy to maintain low interest rates, while intended to benefit the economy generally, hurt pension plans by driving up their costs and hurt companies and employees by diverting corporate assets away from other business needs. In the case of charitable organizations, the exceptional increases in liabilities resulted in their having to redirect funds away from their core philanthropic missions and reduce community services.

MAP-21 very effectively addressed this problem in the short term by tying the funding obligations to a historically normal interest rate. Given the uncertainty at the time as to how long the Federal Reserve's policy would continue, MAP-21 phased out

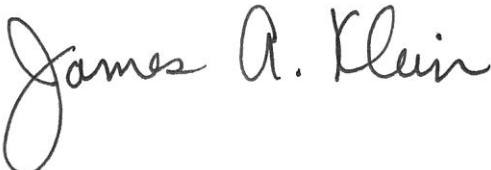
the usefulness of funding stabilization. This meant that funding stabilization was set to be materially less effective in 2013, marginally effective in 2014 and of little use in later years. Since enactment of MAP-21, the Federal Reserve has announced an extended low-interest rate policy. The impact of this policy is the return of the unintended consequence of soaring liabilities for pension liabilities during continued difficult economic times.

Some have suggested that premiums paid to the Pension Benefit Guaranty Corporation should be raised and that the revenue directed to that agency should also be used to pay for other legislation. The Council strongly urges such a proposal be rejected. Funding stabilization and PBGC premium increases do not go hand in hand; in fact, the rationale for funding stabilization provides a clear reason not to increase PBGC premiums. Delaying the phase-out of funding stabilization simply corrects an unintended consequence of the Federal Reserve policy to lower interest rates below where they would otherwise be. If a similar correction were made to PBGC's own calculation of its liabilities through the use of historically normal interest rates, the PBGC would not have a deficit and might have a small surplus. Moreover, PBGC premium increases will result in more companies rapidly exiting the system and thus will provide less retirement security to plan sponsors and participants; this would also seriously shrink PBGC's premium base.

In addition, there are serious concerns about the methodology PBGC uses for calculating its deficit (or surplus) and even more concern about the aspects of that methodology that are not transparent. Now is not the time to increase PBGC premiums again without any study of the PBGC's true financial condition and the adverse effects of further increases on plans, companies, participants, and the PBGC's premium base.

Since 2017 is the earliest point at which pension interest rates could return to normal without the effect of MAP-21, extending the usefulness of full funding stabilization through 2016 is a very appropriate way to update the law to conform to economic conditions, protect plans and participants, and provide greater certainty to pension plan sponsors, as was Congress' intent in MAP-21.

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