



Business Roundtable



May 16, 2006

[Similar letter sent to the full House and Senate]

The Honorable Bill Frist
Majority Leader
United States Senate
Washington, DC 20510

Dear Senator Frist:

Congress is in the final stages of drafting legislation that will dramatically affect all aspects of the private retirement security system in America. The legislation will impact millions of Americans and direct how trillions of dollars are allocated, invested and protected for workers and retirees. Simply put, the pending pension legislation is critical, and any misperceptions about the legislation need to be corrected.

The goal of pension reform legislation should be to strengthen the private retirement security system by enacting policies that encourage employers to maintain traditional defined benefit plans and encourage employees to save more through improvements to the defined contribution system.

Unfortunately, recent media reports have inaccurately suggested that the legislation passed by the House and Senate would allow companies to reduce the funding to their pension plans. This perception is wrong. The new legislation will significantly increase funding in several ways for the overwhelming majority of companies with defined benefit plans:

1. Under current law the minimum funding requirement is 90% of liability. Both bills will require plans to be funded at a minimum of 100% of liability – a 10% increase in required funding. In addition, both the House and Senate bills specify more stringent assumptions in the calculation of liability that will further increase minimum funding obligations.
2. PBGC premiums have already increased from \$19 per enrollee to \$30 per enrollee, a significant and immediate increase. Furthermore, both the House and Senate versions include additional changes to PBGC premiums that can be expected to further increase premium payments over the next few years.
3. The bills substantially accelerate funding requirements for almost all plans – including a uniform 7-year amortization of all underfunding (from a patchwork of different schedules of up to 30 years under current law). The reduced amortization schedule will require

companies to fund deficiencies faster and is shorter than the Bush Administration proposal of 7 to 10-year amortization. Both the House and Senate, rather than allow more time to cover shortfalls, adopt the most stringent aspect of the Administration's proposed amortization schedule.

4. The discount rate used to calculate liabilities would move from the corporate bond rate to a Treasury Department-derived yield curve, which could substantially increase funding requirements, especially for mature industries.

Employers agree that pension plans should be fully funded in order to ensure that plans have sufficient assets to pay benefits when due. Employers also accept that virtually all companies will be required to put more money into their pension plans. In order to reach this point, Congress must enact a final bill that preserves a strong pension system by eliminating legal uncertainties, minimizing funding volatility and allowing for a predictable and flexible transition period to meet the new requirements. That bill must also maintain incentives to prefund plans and should not change the measure of a plan's liability based on the plan sponsor's credit rating. These elements are vital to moving a final bill in a common sense direction that will allow employers to continue to maintain defined benefit plans and at the same time grow and compete in the global economy.

Members of Congress, companies, unions, and all interested parties want to strengthen the defined benefit system. Contrary to various media reports, the bills passed by both the House and Senate will require significant new funding increases for the overwhelming majority of companies with defined benefit plans.

Sincerely,



John J. Castellani
President
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John Engler
President & CEO
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Commerce