

March __, 2006

The Honorable Charles Grassley
Chairman
Senate Finance Committee
Washington, DC 20510

The Honorable Max Baucus
Ranking Member
Senate Finance Committee
Washington, DC 20510

The Honorable Michael Enzi
Chairman
Committee on Health, Education, Labor,
and Pensions
Washington, DC 20510

The Honorable Edward Kennedy
Ranking Member
Committee on Health, Education, Labor,
and Pensions
Washington, DC 20510

Dear Senate Conferees:

As you work to reach consensus between the House and Senate versions of single-employer defined benefit pension plan funding reforms set forth in the Pension Security and Transparency Act of 2005 (S. 1783) and the Pension Protection Act of 2005 (H.R. 2830), we urge you to carefully consider the adverse impact that certain reforms could have on some U.S. companies. Provisions in the Senate-passed bill, including the use of a company's credit rating and lack of an adequate smoothing period, have the potential to adversely impact the pensions of millions of Americans from large manufacturing and telecom companies to smaller, high-tech firms. The inclusion of these provisions in a conference agreement could jeopardize the economic stability of these companies instead of enabling them to keep their promises to long-time workers and retirees.

Pension reform is a critical issue for many U.S. workers and retirees. Traditionally, many manufacturing employees have planned for their future by forgoing some short-term wages in exchange for a guaranteed monthly pension to support themselves and their families when they are no longer working. But unfortunately, due to swings in the stock market, complex funding rules, changes in the business climate, or unforeseen developments, some companies' defined benefit pension plans are underfunded. Furthermore, some companies have tried to get out of their pension obligations after they have declared bankruptcy. Surely we do not want these disturbing trends to continue. It is essential that we revisit our federal pension laws and adopt reforms to ensure that companies set aside enough money to make good on these earned benefits.

However, crafting such reforms requires a delicate balance. Troubled companies may have difficulties withstanding drastic changes that require them to suddenly divert significantly more money than they anticipated into their pension plans. And even healthy companies may decide that guaranteed benefit pension plans are not worth

maintaining if changes make their funding requirements significantly more volatile or unpredictable. In fact, a survey of Chief Investment Officers for large pension plans found that 60 percent thought changes like those proposed by the Administration would lead to benefit reductions or plan termination. We want reforms that strengthen the defined benefit system, not endanger it. Furthermore, reforms must avoid the unintended consequence of driving troubled companies into bankruptcy, which would worsen the financial condition of the Pension Benefit Guarantee Corp (PBGC) and put more Americans' retirement security at risk.

As you develop the conference report, we urge you to carefully weigh whether particular reforms would encourage companies to continue to try to do the right thing or unfairly penalize them. The following are two specific points that we feel should be taken into account when creating such a balanced bill.

A company's credit rating should not be used to determine "at-risk" status.

The Senate bill would use an indirect measure, a company's credit rating, rather than the direct measure of a plan's strength, its asset balance, to determine whether the plan is "at-risk." Once defined as "at-risk," the company must use different actuarial assumptions that will require it to put significantly more money into its pension trusts. This provision alone could require companies with soundly-funded plans (but poor credit ratings) to lock away unnecessarily high amounts of additional dollars in their plans. These are dollars that could otherwise be used to boost research and development, create jobs, make other investments needed to compete in a global marketplace, or otherwise fund efforts to strengthen a company's financial condition. Moreover, increasing companies' funding requirements specifically during times of financial difficulty could further push troubled companies toward bankruptcy, adding to job losses and reducing the likelihood that the companies make good on their promises to provide these long-term benefits over time.

Twelve-month "smoothing" is too short. Under current law, the amount of money companies have to put into their plans is determined by valuing their pension liabilities using a four-year weighted average; pension assets may be similarly smoothed over a five-year period. This prevents companies from having short-term drastic and unpredictable fluctuations in the amounts they are required to contribute to their pension plans. The House bill reduces both "smoothing" periods to a three-year average; the Senate bill reduces them further to a 12-month average. Using a 12-month timeframe could mean drastically increased contributions during stock market downturns and generally increase the volatility and unpredictability for employers. Three years is a fair approach that would tighten current law but still give employers some necessary cushion against volatility and provide needed predictability to allow companies to plan contributions prudently. We do not want to create so much unpredictability that companies leave the defined benefit plan system because it is too difficult to plan for their pension costs. Doing so would undermine retirement security for millions of Americans.

In short, U.S. companies, employees and retirees have a lot riding on pension reform. We hope your final conference report will strike the necessary balance that adequately protects pension plan participants but does not put an undue burden on their employers by requiring an unwarranted locking away of funds, which ultimately could have the unintended consequence of putting pension plan participants at an even greater risk than today. It is critical that pension reform strengthen workers' retirement security, not weaken the system supporting it.

Thank you for your attention to our views.

Sincerely,

George Voinovich

Carl Levin

Cc: The Honorable Orrin G. Hatch
The Honorable Trent Lott
The Honorable Olympia J. Snowe
The Honorable Rick Santorum
The Honorable Judd Gregg
The Honorable Mike DeWine
The Honorable Johnny Isakson
The Honorable John D. Rockefeller IV
The Honorable Kent Conrad
The Honorable Jeff Bingaman
The Honorable Tom Harkin
The Honorable Barbara A. Mikulski