AMERICAN ACADEMY *of* ACTUARIES

April 17, 2014

The Honorable Harry Reid
Senate Majority Leader
United State Senate
S-221 Capitol Building
Washington, DC 20510

The Honorable John Boehner
Speaker of the House
United States House of Representatives
H-232 Capitol Building
Washington, DC 20515

The Honorable Mitch McConnell
Senate Minority Leader
United States Senate
S-230 Capitol Building
Washington, DC 20510

The Honorable Nancy Pelosi
House Minority Leader
H-204 Capitol Building
Washington, DC 20515

Re: Pension Funding Provisions of Recent Legislative Proposals

Dear Majority Leader Reid, Minority Leader McConnell, Speaker Boehner, and Minority Leader Pelosi:

On behalf of the American Academy of Actuaries' Pension Practice Council, I bring to your attention concerns we have over certain proposals to raise revenue from the private sector pension system to offset unrelated spending increases. These proposals would lower funding requirements for single employer defined benefit plans and/or increase Pension Benefit Guaranty Corporation (PBGC) premiums beyond the substantial increase passed in December 2013.

The changes to pension funding rules and insurance premiums should be evaluated based primarily on their effect on the private sector pension system and its stakeholders (participants, sponsors, and the PBGC), rather than primarily as a means to offset spending for other purposes.

We have established seven principles as guidelines for any changes in funding requirements.[1] These principles are solvency, predictability and hedgeability, incentives to fund, avoidance of moral hazards, transparency, simplicity, and transition. We urge Congress to deliberate on any changes to funding rules openly, to evaluate any changes according to these seven principles, and to conduct public hearings to allow opportunity for public comment.

[1] http://www.actuary.org/files/funding_single.4.pdf/funding_single.4.pdf

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We previously expressed concern to the MAP-21 conference committee on May 2, 2012, about the pension funding provisions under consideration then.[2] We noted that the legislation's use of interest rates based on a 25-year average of corporate bond rates produce funding targets that "… are insufficient to settle obligations or fund obligations with a low risk portfolio and do not provide meaningful information about the current funded status of the plan."[3] Various recent proposals would extend these provisions for an additional four or five years.

In addition to the proposals regarding funding requirements, there has been discussion concerning additional PBGC premium increases. From 2012 to 2016, the scheduled flat-rate premium for single-employer plans is increasing 91 percent and the variable rate premium is increasing more than 200 percent. Yet, the aggregate underwriting experience (premiums received less liabilities assumed) of the PBGC during the past eight years has been favorable. In evaluating the current premium level and structure, as well as possible changes thereto, primary consideration should be given to the risks inherent in the pension system and the effects on all stakeholders. These issues are not being appropriately considered when premium-increase proposals are added to unrelated legislation as a "pay-for" to enable other priorities. Further premium increases will increase the cost of plan sponsorship and could accelerate the rate of plan closures, plan terminations, and other sponsor efforts to transfer risks to participants, which include offering lump sum distributions to current retirees.

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The American Academy of Actuaries' Pension Practice Council appreciates your attention to these concerns. We would be happy to meet with you at your convenience to provide additional perspectives on proposed changes to the private pension system. Please contact David Goldfarb, the Academy's pension policy analyst (202-785-7868, Goldfarb@actuary.org) if you have any questions or would like to discuss this issue further.

Sincerely,

Donald E Fuerst, MAAA, FSA, FCA, EA
Senior Pension Fellow
American Academy of Actuaries

CC: U.S. Members of Congress

[2] Moving Ahead for Progress in the 21st Century Act, [Subsequently, Public Law No: 112-141].
[3] http://www.actuary.org/files/Letter%20on%20Funding%20Stabilization%20V10%20Merge%20Comments_Conferees_05_02_2012.pdf