The
ERISA
Industry
Committee

December 8, 2008

Dear Representative:
Dear Senator:

We are writing to strongly urge that Congress act immediately to temporarily adjust the funding rules for private sector defined benefit pension plans. Plans that were well funded only a short time ago, including plans that had made substantial contributions to their plans in accordance with the stringent terms of the Pension Protection Act of 2006, now find themselves significantly underfunded as a result of equity and bond market losses that were unforeseen and uncontrollable.

Congress imposed stringent new funding requirements on private sector pension plans in the Pension Protection Act of 2006 (PPA). The goal was full funding of all private sector pension plans in a relatively short period of time, and plan sponsors stepped forward to meet the PPA's targets.

Neither Congress nor anyone else foresaw the current recession accompanied by severe economic downturn and virtually unprecedented market losses. The assets of pension plans subject to the new funding requirements have lost nearly *$1 trillion* in value since the beginning of the year. These losses have within weeks turned *over*funded plans into *under*funded plans and moderately underfunded plans into severely underfunded funds.

To require full funding to make up losses of this magnitude, on the original schedule set by Congress in the PPA, and in relatively short order, is simply not possible in the current economic crisis. To do so will cause grave harm not only to the viability of the pension plans and the companies themselves, but will also undermine the nation's economic recovery, which in fact is the only sure course to getting America's pension plans back on the track to full funding.

To avoid these results, Congress needs to temporarily and immediately adjust the schedule for meeting the PPA's new funding targets to take into account the steep decline in pension asset values. If it fails to do so, employers will face unprecedented funding obligations next year that will dwarf those Congress anticipated when it passed the PPA in 2006. If employers are forced to make these contributions to comply with the PPA, most will have no choice but to sharply reduce their workforces, freeze plans, and curtail other benefits such as 401(k) contributions, as well as other business spending.

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Mass lay-offs and sharp contractions in business spending are the surest path to deepening and prolonging the nation's current economic downturn. Together with other adverse developments, they would exacerbate the downward spiral in employment and spending that Congress will soon come to regret and that, ironically, would frustrate the PPA's goals of achieving full funding of pension plans by further eroding pension asset values.

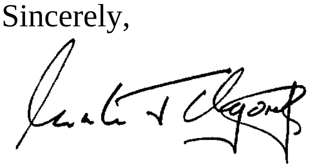
Insisting on sharply increasing pension contributions in the current environment would be akin to the Federal Reserve's insistence on balancing the federal budget following the stock market crash of 1929—a policy that most observers credit, along with other government missteps, with triggering the Great Depression of the 1930's. On the other hand, a sensible policy of temporarily moderating pension contributions will help the country emerge from the current economic downturn and hasten the day when pension asset values will recover. <u>Plan sponsors are not asking for financial assistance. They are quite reasonably only asking for time</u>.

Time is of the essence. Congress must not wait to act until next April or September when the first pension contributions for 2009 are due. Chief financial officers are setting their companies' spending and retrenchment plans for next year *now*. Without immediate Congressional action, prudent plan sponsors will have to assume that they will be making dramatically increased pension contributions next year and will retrench to pay for or offset those contributions accordingly. Even if Congress ultimately acts by next April, it will be too late to avoid the lay-offs, 401(k) and other benefit cut-backs, and reduced business spending.

In the last several days, a coalition of employer and business associations sent to Members of Congress a letter outlining a reasonable and sensible approach for temporary relief. We agree with and signed that letter and urge Congress to act expeditiously on the recommendations we and others have made. We understand that there are those who have counseled delay. To heed to that counsel will intensify the downward spiral of lost jobs, more pension freezes, other benefit cutbacks and economic hardship.

Thank you for your consideration of and prompt attention to this matter.

Sincerely,



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