



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

JAN 22 2004

The Honorable Bill Frist
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

As you are aware, the Senate has entered into a unanimous consent agreement for the consideration of H.R. 3103, the Pension Funding Equity Act. We appreciate the Senate's timely action on this issue of great importance to America's workers and pension plan sponsors. We are writing to you in our role as the board of the Pension Benefit Guaranty Corporation (PBGC).

At the end of 2003, the temporary adjustment to the statutory rate for discounting pension liabilities expired. This has denied pension plan sponsors the certainty they need to plan their pension funding for 2004. The Administration has expressed its support for the provision in H.R. 3108 that would discount pension liabilities for the next two years using a blend of long-term corporate bond rates.

The PBGC reported a record single-employer program deficit of \$11.2 billion through the end of 2003, three times larger than any previously recorded deficit. Last year, the General Accounting Office added the PBGC's single-employer pension program to its "high risk" federal program list. In addition, the PBGC remains exposed to \$85 billion in pension underfunding in single-employer plans sponsored by financially weak employers. The PBGC also reported the first multi-employer program deficit in two decades.

Pension underfunding threatens workers and retirees, who depend on the defined benefit pension system to be predictable and reliable. If the Congress encourages firms to underfund their pensions by substantially weakening pension funding requirements, retirees could face pension cuts when a firm terminates its defined benefit pension plan.

We believe that H.R. 3108 would best protect pensions and pensioners if passed free of any provisions to alter the Deficit Reduction Contribution (DRC) rules. Specifically, it would be irresponsible to amend the interest rate bill with any additional provisions that would significantly further exacerbate systemic pension plan underfunding. If H.R. 3108 were amended to do so, we as the PBGC board would recommend that the President veto the legislation.

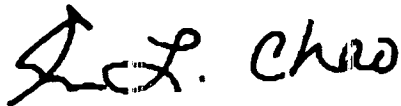
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The Administration is developing comprehensive proposals to strengthen America's defined benefit pensions, and any provisions to alter the DRC rules should be reviewed in the context of reforms to strengthen pension funding over time. We look forward to working with you in the future to strengthen the protection of the pension benefits that America's workers have earned.

The Office of Management and Budget has advised that this letter is consistent with the Administration's program.

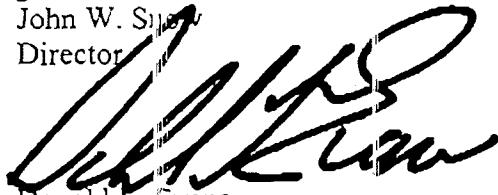
Sincerely,



Elaine L. Chao
Chairman, Board of Directors



John W. Snow
Director



Donald L. Evans
Director