GORDON H. SMITH
OREGON

COMMITTEES:
FINANCE
COMMERCE, SCIENCE, AND TRANSPORTATION
ENERGY AND NATURAL RESOURCES
INDIAN AFFAIRS
CHAIRMAN, SPECIAL COMMITTEE ON AGING

United States Senate

WASHINGTON, DC 20510-3704

March 8, 2005

Chairman Judd Gregg
Senate Budget Committee
624 Dirksen Office Building
Washington, DC 20510

Senator Kent Conrad
Senate Budget Committee
624 Dirksen Office Building
Washington, DC 20510

Dear Chairman Gregg and Senator Conrad:

I am writing to express serious concerns about including proposed increases in the premiums payable to the Pension Benefit Guaranty Corporation ("PBGC") in the FY 2006 Budget Resolution.

The Administration has released an extensive package of proposed reforms to the pension funding rules. As part of this package, the PBGC–the agency that insures private-sector pension plans–is seeking significant increases in the premiums it collects. I understand these increases include a 60% increase in the flat rate premium as well as indexing the flat rate premium for wage inflation. And, the PBGC has proposed unspecified yet potentially large increases in variable rate premiums.

Premium increases of this magnitude could cause many employer plan sponsors to cease offering employee pension plans. This would further erode the retirement security of many American workers. While the short-term financial status of the PBGC is important, pension reform must focus on improving the financial health of pension plans overall. This is the best long-term solution for the PBGC. To consider PBGC premium revenues outside the context of changing the funding rules as a whole is not a viable long-term solution for the PBGC. Moreover, I am concerned that it will preclude a full discussion on the appropriateness of the proposed premium increases in conjunction with the broader pension funding reform debate.

Changes in the pension rules—particularly PBGC premium increases—should not be driven by a need to reduce the federal budget. In the past, changes to the defined benefit plan rules aimed at deficit reduction have harmed workers and retirees who depend on employment-based plans. Pension policy should be driven by what is best for American workers and retirees, not by deficit reduction measures.

For these reasons, the FY 2006 Budget Resolution should not incorporate any PBGC-related changes that are driven by deficit reduction considerations and that do not give Congress the opportunity to take into account all applicable policy issues in future pension funding debates.

Sincerely,

Gordon H. Smith
United States Senate

cc: Chairman Grassley and Ranking Member Baucus