



PENSION RULES SHOULD NOT BE BASED ON CREDIT RATINGS

THE USE OF CREDIT RATINGS WOULD RESULT IN UNNECESSARY BANKRUPTCIES

- The PBGC has proposed basing pension plan funding rules, PBGC premiums, and the benefits a participant can receive on credit ratings. In effect, when the employer's credit rating slips, the employer's liability is treated as increasing, even though the plan's benefit payment obligations remain unchanged and certain promised benefits could not be paid to retirees.
- A creditworthiness test would make it more difficult for businesses to recover from economic setbacks. If lower credit ratings create additional funding and PBGC premium burdens, this could lead to further downgrades, creating a vicious cycle that drags a company down.
- The PBGC's proposed creditworthiness test would also misclassify many employers. The overwhelming majority of plans that are sponsored by employers whose debt is not investment grade continue funding and never terminate their plans. The PBGC proposal could force some of these companies out of the defined benefit system and potentially out of business, which would mean that workers lose their jobs and possibly their retirement security.

THE BEST WAY TO PROTECT THE PBGC FROM FAILING BUSINESSES IS TO REQUIRE APPROPRIATE FUNDING REGARDLESS OF CREDIT RATING.

- An employer's credit rating is not directly tied to the plan's ability to provide promised benefits. One of the hallmarks of US pension law is that plans are funded through separate trusts. A plan that is appropriately funded will pay all its benefits regardless of whether the sponsoring employer fails.
- The best way to protect pensions for future retirees and working Americans is for Congress to enact permanent rules that lead to a fair and stable system. The unexpected termination of the 30-year Treasury bond in 2001, and the subsequent temporary fixes to the interest rate used for pension calculations have made it impossible for employers to project future pension costs.
- Plan sponsors that make pension promises they cannot keep should not be allowed to "shift" their liabilities to the PBGC since this poses a hazard to other PBGC premium paying sponsors participating in the system. Careful consideration should be given to reforms that prevent benefit increases that are not likely to be funded within a reasonable period of time.

A CREDITWORTHINESS TEST IS FUNDAMENTALLY UNRELIABLE AND UNWORKABLE

- There are only four credit rating agencies and a creditworthiness test would inappropriately vest these agencies with the power to put companies out of business. This is particularly troubling at a time when credit rating agencies, and the credit rating process, have been the subject to significant criticism. These criticisms raise serious doubts about the credibility and reliability of credit ratings.

- For private companies that are not rated, the proposal to give the PBGC the power to create a model that would effectively rate creditworthiness of American businesses. The government should not be in the business of rating the relative credit worthiness of America's businesses.