



THE ADMINISTRATION'S PENSION PROPOSALS ARE COUNTER-PRODUCTIVE

THE PROPOSED USE OF SPOT RATES WOULD MAKE FUNDING LESS PREDICTABLE

- Smoothing rules make funding predictable so that companies can make business plans.
- Spot valuations are neither accurate nor meaningful for pension liabilities that span many years. Spot valuations do not mean tougher funding standards; the spot or smoothed rate only affects when contributions are due.
- Spot valuations mean larger contributions during economic downturns and smaller contributions during upturns. This means deeper recessions and an economy that overheats during upturns.

THE PROPOSAL TO BASE THE PENSION RULES ON CREDIT RATINGS IS DANGEROUS

- The use of credit ratings would result in unnecessary bankruptcies. If lower credit ratings create additional funding and PBGC premium burdens, this could lead to further downgrades, creating a vicious cycle that will drag companies into bankruptcy. The creditworthiness proposal would inappropriately vest the rating agencies with the power to put companies out of business.
- The best way to protect the PBGC from failing businesses is to require appropriate funding regardless of credit rating. A plan that is appropriately funded will pay all its benefits despite the sponsoring employer's business prospects..

THE PROPOSED ELIMINATION OF CREDIT BALANCES WOULD MEAN LESS FUNDING

- The Administration's proposal would not give employees who prefund direct credit for their excess contributions. This means that an employer who puts in more than necessary is put in a worse position than an employer who merely contributes the minimum.
- The problem with the current law credit balance system is the fact that credit balances are not immediately adjusted if the underlying value of the assets changes.

THE PROPOSED PBGC PREMIUM INCREASES GO TOO FAR

- The best way to address the PBGC's deficit is to keep employers in the defined benefit system, not to tax them out of the system. It is widely recognized that the PBGC's deficit is overwhelmingly attributable to plans that were sponsored by airline and steel companies. Excessive premium increases of the magnitude proposed by the Administration are nothing more than a tax on good plan sponsors to pay for something they had nothing to do with.