

*Pension Reform Legislation
Important Communication*

January 4, 2006

Dear Senator:

Major pension reform legislation currently moving through Congress could have a significant impact on the retirement security of millions of American workers. As the legislation moves forward, the undersigned companies and trade associations who are members of the Pension Coalition strongly urge you to support reforms that address problems that can and need to be fixed and that foster a legal and economic framework that encourages employers to stay in the defined benefit system.

Employer-sponsored plans pay out more than \$120 billion annually in benefits, and we proudly consider the defined benefit pension system an American success story. Employers have voluntarily provided and funded pension plans that now cover over 34 million Americans. The policies Congress chooses to adopt will play a major role in determining the strength and vibrancy of a critical cornerstone in the retirement security system in America. Congress must establish balanced policies that allow employers to create and maintain defined benefit plans, and ensure that final pension reform legislation fosters a legal and economic framework that encourages employers to stay in the defined benefit system.

Unfortunately, too much of the current legislative debate has focused on the small number of companies in bankruptcy whose plans have been taken over by the Pension Benefit Guaranty Corporation (PBGC). This has led to calls from some for a “sky is falling” approach to pension reform that assumes every plan is at risk of failure. Congress must not allow the example of a very small number of companies to lead to misguided policies that shrink the number of plans and leave fewer Americans with the retirement security of a defined benefit plan and placing inordinate burdens on those employers that continue to provide these valuable programs.

The goals of pension reform must be to improve the funded status of pension plans, provide legal certainty for plan sponsors, and encourage employers to remain committed to sponsoring these plans. Retaining rules that do not penalize employers for pre-funding their plans, preserving predictability in determining pension contributions and using the funded status of the plan to compute pension liability are key to achieving these goals. While it is a delicate balance, it is critical that final legislation take into consideration all of these factors. There are elements in both the Senate and House versions of the legislation that can be combined to create a responsible, common sense final bill, but as all sides would agree, much work remains before we've reached that point.

Pension Reform Legislation Important Communication

Additionally, if pension reform is going to encourage employers to stay in the defined benefit system, Congress must provide comprehensive legal certainty for all existing and future hybrid pension plans.

The under signed members of the Pension Coalition urge the Senate to develop with the House a common sense pension reform bill that includes:

- Predictable funding rules that provide employers with the ability to use effective smoothing techniques for interest rates and assets and thus make multi-year business planning decisions.
- Generous transition timetables that reflect an understanding that employers will be asked to make additional and substantial contributions to their plans.
- Comprehensive clarification of the basic age discrimination standard for defined benefit plans that provides legal certainty for all existing and future hybrid pension plans.
- Provisions that encourage pre-funding, including increased deductibility limits and meaningful access to pre-funded contributions through the preservation of the use of credit balances.
- Funding rules for rural cooperative "multiple-employer" plans that recognize their unique nature and structure.

At the same time, pension reform legislation should not include:

- The use of a company's credit rating status to determine a plan's funding requirements.
- Excessive PBGC premium increases (both flat and variable rate) whose main purpose is to lower the federal budget deficit rather than strengthen the PBGC insurance system.
- Linkages of design clarification of hybrid plans to burdensome new mandates on how a company transitions from one type of defined benefit plan to another nor to litigation carve outs.

The under signed companies and associations continue to seek to assist Congress in understanding the real challenges faced today by employers in sponsoring defined benefit pension plans. We look forward to working with the entire U.S. Senate and House of Representatives to reach consensus on a common sense approach to this critical issue. We support many provisions in the bill that address problems that can and need to be fixed. At the same time, plan sponsors require and rely upon a legal and economic framework that encourages the continuation of these voluntary plans.

*Pension Reform Legislation
Important Communication*

3M

American Benefits Council

American Dental Association

American Forest & Paper Association

Arch Coal

AT&T

Avaya Inc

Buck Consultants

Business Roundtable

California Chamber of Commerce

Celanese Corporation

Corning

Dow Chemical

DuPont

Edison Electric Institute

ERISA Industry Committee

General Motors

Hewitt Associates

Honeywell

Hormel Foods

IBM

International Paper

Kodak

Lockheed Martin Corporation

Louisiana-Pacific Corporation

Maytag Corporation

Motor and Equipment Manufacturers Association

National Association of Manufacturers

National Rural Electric Cooperative Association

National Telecommunications Cooperative Association

NCR Corporation

Nestlé USA

PNM Resources

Sempra Energy

Smurfit-Stone Container Corporation

Texas Instruments

The Goodyear Tire & Rubber Company

U.S. Chamber of Commerce

United Benefits Group

Whirlpool Corporation

Xerox Corporation