



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

The Honorable Charles E. Grassley
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Chairman Grassley:

Thank you for your continuing efforts to improve measurement accuracy and transparency in America's system of defined benefit pensions. We commend the Senate Finance Committee for its proposals on pension discounting, and believe that they would serve the goal of stronger pension funding over the long term by greatly improving the accuracy of pension liability measurements.

We understand that legislation may soon be considered on the Senate floor that could include a provision changing the pension Deficit Reduction Contribution (DRC) rules. In our capacity as the PBGC Board, we strongly oppose any such provision to eliminate, suspend, or weaken the DRC rules.

We appreciate that pension funding requirements place demands on plan sponsor revenues, particularly following periods of slow economic growth. We would note that the Administration proposal for changing the statutory method of pension discounting – like H.R. 3108, and like the Senate Finance Committee's NESTEG legislation – would have the effect of providing approximately \$30 billion of funding relief to employers in the near future.

Granting a three-year DRC funding holiday, however, would result in an additional \$40 billion in plan underfunding, most of which would be concentrated in the very plans that pose the highest risk of termination.

On July 23, 2003, the General Accounting Office (GAO) placed the single-employer pension insurance program of the Pension Benefit Guaranty Corporation (PBGC) on its "high risk" list. GAO cited large losses from seriously underfunded pension plan terminations as one of the primary risks to PBGC's long-term financial viability. Weakening the DRC rules would exacerbate these risks.

The DRC rules were put into place to guard against the continuing deterioration of funding levels in underfunded plans. These rules were designed to protect participants' accrued benefits and the financial integrity of the pension insurance system. Suspension of the DRC rules would mean a significant further reduction in the resources available to

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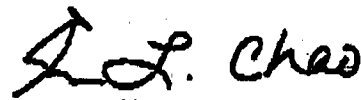
meet the promises made to existing and future retirees. Moreover, suspending DRC rules would jeopardize pension funding in the future, as companies begin to fund their plans less prudently in anticipation of extraordinary relief from their contributions when plans become underfunded.


The Administration's primary objective in pension reform is improving the retirement security of America's workers and retirees by strengthening the financial health of the voluntary defined benefit system on which they rely. To achieve that objective, pension funding must be improved rather than permitted to deteriorate further. Any changes to the DRC rules should only be considered in the context of simultaneous reforms that strengthen pension funding for the long term. Even in this context, such changes should not allow for disproportionately reduced funding in the most underfunded pension plans.

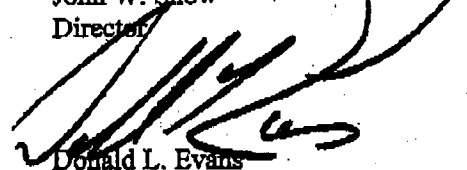
Americans have a broadly shared interest in adequate funding of employer-provided defined benefit pensions. We look forward to working with you to ensure the continued viability of our defined benefit pension system.

The Office of Management and Budget has advised that there is no objection to this letter from the standpoint of the Administration's program.

Sincerely,


Elaine L. Chao
Chairman, Board of Directors


John W. Snow
Director


Donald L. Evans
Director