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July 15, 2014

The Honorable Harry Reid
Majority Leader of the US Senate
US Capitol
Washington DC 20510

The Honorable Mitch McConnell
Republican Leader of the US Senate
S-230, US Capitol
Washington, DC 20510

Dear Majority Leader Reid and Minority Leader McConnell:

As a leading actuarial firm that consults with employers to design, implement and administer their defined benefit (DB) plans, Mercer applauds the Finance Committee's decision not to further increase premiums paid to the Pension Benefit Guaranty Corporation (PBGC) as a means to replenish the Highway Trust Fund. As the Senate considers this and other legislation over the coming weeks and months, Mercer strongly urges Congress to continue resisting further increases in PBGC premiums.

Mercer believes that further PBGC premium increases are unnecessary and counterproductive, and more importantly, that Congress should broadly review the PBGC and other current rules adversely affecting DB plans, the financial viability of the agency, and the retirement outcomes of many Americans. We at Mercer stand ready to work with you on such a policy review and on the development of legislation that will improve retirement outcomes for more Americans.

Sufficiently funded. The PBGC acknowledges that the single-employer insurance program is not facing a current or even short-term financial crisis that warrants additional premiums. Indeed, the PBGC's 2013 Projections Report (released on June 30, 2014) states that, "it is highly

unlikely that the single-employer program will run out of funds in the next 10 years." More specifically, the Report notes that the present value of its mean projected deficit is expected to shrink from today's $27.4 billion deficit to $7.6 billion in 2023. The Report also indicates that the PBGC has less than a 25% chance of seeing the value of its deficit increase over this 10-year period, and more than a 25% chance of being in a surplus position by 2023.

Counterproductive. The PBGC's stated mission is, "to encourage the continuation and maintenance of private-sector defined benefit pension plans, provide timely and uninterrupted payment of pension benefits, and keep pension insurance premiums at a minimum." But by forcing current DB plan sponsors to incur inappropriate higher costs – as is already the case, even without further increases – we believe PBGC premiums are actually accelerating the decline of the very plans it should be supporting.

As one of this country's largest human resource consulting firms advising more than 1,000 US companies on retirement issues, we at Mercer know firsthand that the $16 billion (over 10 years) in increased PBGC premiums enacted over the past several years is already pulling important resources from other key business priorities and undermining employers' desires to maintain DB plans.

Recent Legislative Premium Increases

	% Increase	2012	2016
Flat Rate	83%⇑	$35/participant	$64/participant
Variable Rate	222%⇑	$9/participant	$29/participant

Policy review. We believe Congress should undertake a broad policy review of the US retirement system with the overall goal of improving the retirement outcomes for more Americans. The PBGC should be a key area of focus within this broad review, along with other rules that affect the number and coverage of DB plans. Lawmakers should effectively transform the PBGC and retirement rules so they have a more productive impact on DB plans and the agency's own financial position.

The review should encompass numerous issues, such as improving the PBGC premium framework and the funding and other rules for DB plans so that they more effectively balance risks to the agency and participants with support for DB plans, target the PBGC's ability to protect itself and participants in certain corporate transactions, and encourage more employers to maintain DB plans for more Americans. One of the key PBGC issues will be how best to handle the agency's legacy costs. On this, we believe forcing current DB plan sponsors to shoulder the significant legacy costs associated with DB plans that have terminated over the last 25 years imposes an unjustified and counterproductive burden that is contrary to fundamental insurance principles and improving future retirement outcomes.

Conclusion. We strongly believe that Congress should avoid further PBGC premium increases that will unnecessarily increase plan sponsor costs and counterproductively reduce the number and coverage of DB plans, thus undermining the PBGC's financial future and overall retirement outcomes. We at Mercer stand ready to work with Congress to improve the US retirement system – including the PBGC and DB plans – and to help ensure that well-intentioned policy goals are achieved in practice.

Sincerely,

Julio A. Portalatin
President and CEO
Mercer

cc: US Speaker of the House John Boehner
US House Democratic Leader Nancy Pelosi
Chairman Ron Wyden, Committee on Finance
Ranking Member Orrin Hatch, Committee on Finance
Chairman Tom Harkin, Committee on Health, Education, Labor and Pensions
Ranking Member Lamar Alexander, Committee on Health, Education, Labor and Pensions

Chairman Dave Camp, Committee on Ways and Means

Ranking Member Sander Levin, Committee on Ways and Means

Chairman John Kline, Committee on Education and the Workforce

Ranking Member George Miller, Committee on Education and the Workforce

J. Mark Iwry, Deputy Assistant Secretary, U.S. Department of the Treasury

Honorable Joshua Gotbaum, Director, Pension Benefit Guaranty Corporation

Honorable Phyllis C. Borzi, Assistant Secretary, Employee Benefits Security Administration, U.S. Department of Labor