MERCER

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April 7, 2020

The Honorable Mitch McConnell
Majority Leader,
United States Senate
Washington, DC, 20510

The Honorable Chuck Schumer
Minority Leader,
United States Senate
Washington, DC 20510

The Honorable Senator Chuck Grassley
Chairman,
Senate Finance Committee
Washington, DC 20510

The Honorable Senator Ron Wyden
Ranking Member,
Senate Finance Committee
Washington, DC 20510

The Honorable Lamar Alexander
Chairman,
Senate Committee on Health, Education,
Labor, and Pension
Washington, DC 20510

The Honorable Patty Murray
Ranking Member,
Senate Committee on Health, Education,
Labor, and Pension
Washington, DC 20510

Dear Leader McConnell, Minority Leader Schumer, Chairman Grassley, Ranking Member Wyden, Chairman Alexander and Ranking Member Murray,

On behalf of Mercer, a global human resources consulting and actuarial firm that helps thousands of U.S. employers provide health and retirement benefits to millions of Americans, I am writing to thank you for including funding relief for single-employer defined benefit plans in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This federal aid package will be instrumental in delivering assistance that is broad, strategic and responsive to the needs of both employers and their employees. We believe this relief provides employers with flexibility to help them weather the immediate crisis brought on by the global COVID-19 pandemic.

While we hope the crisis passes quickly, we expect the recovery period will be lengthy. The CARES Act funding relief provides short-term deferral of contributions, and as such is a stopgap measure. Single-employer pension plans are under significant stress and we expect they will remain under stress without further action. Historically low interest rates (which sharply increase pension liabilities) and volatile equity markets increase funding shortfalls. The current rules, which require amortization of these shortfalls over seven years, exacerbate the situation. With employers focused on directing their limited resources toward keeping their businesses afloat during these challenging times, we believe further relief would be helpful to employers without significantly, adversely affecting the expected long-term financial integrity of the majority of single-employer pension plans.

Although some employers may struggle to weather the current financial crisis, single-employer pension plans are generally healthy and do not require large immediate cash infusions to remain viable. Based on the most recent full year of pension plan filings, the typical plan pays out approximately 8% of its assets annually in benefits, so most corporate plans have the cash and liquidity required to make their benefit payments for the next several years.

We understand the concern that permitting contributions to be deferred could be viewed as temporarily weakening the financial position of pension plans especially if interest rates remain low. We also acknowledge this could place a larger burden on the PBGC and taxpayers if many employers were to go bankrupt. However, additional funding relief would afford companies a greater chance of surviving in the longer-term by allowing them to direct additional financial resources toward their most urgent business needs, thereby reducing the likelihood of near-term bankruptcies.

We therefore consider it vital that Congress provide longer-term financial relief to single-employer plan sponsors, and give employers the ability to direct financial resources toward sustaining their businesses and preserving current jobs. This will be critical to enhancing the speed and strength of our nation's economic recovery.

We urge Congress to give plan sponsors additional relief by:

- **Extending the amortization period:** Providing a longer amortization period can mitigate the effect of significant increases in plan funding shortfalls. For example, 15 years would provide meaningful relief while still ensuring shortfalls are amortized over a reasonable period.
- **Continuing interest rate relief beyond 2020:** Since 2012, many single-employer plans have used stabilized interest rates to determine their minimum required contributions. The stabilized rates are higher than non-stabilized rates, thereby producing lower benefit obligations and lower contributions. The stabilization provisions are currently scheduled to start phasing out in 2021. Extending this relief in some form (such as delaying the phase-out or implementing a floor on the funding rates) would provide additional support for plans that have been impacted by the precipitous decline in interest rates since the financial crisis in 2008.

The single-employer pension system is fundamentally sound. In the current circumstances, employers need time to recover from the current crisis so they can honor their long-term pension promises.

Mercer will continue to work closely with our clients to enhance their economic resilience throughout the pandemic, which we hope will in turn enable them to support their employees. We stand ready to assist immediately on the urgent policy responses you are pursuing to help America's working families, businesses and communities. As always, please let us know how we can best support your vital work on behalf of our country.

Sincerely,

MAFerland

Martine A. Ferland
President and CEO, Mercer