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March 18, 2020

The Honorable Senator Chuck Grassley
Chairman, Senate Finance Committee
135 Hart Senate Office Building
Washington, DC 20510

The Honorable Senator Ron Wyden
Ranking Member, Senate Finance Committee
221 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley and Ranking Member Wyden,

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 urge you to take immediate action to mitigate an impending crisis in our nation's retirement system.

The global COVID-19 pandemic has led to historic levels of volatility in the financial markets and rearranged priorities across the nation. Some corporations are suddenly finding themselves struggling to keep their businesses afloat, while many others are facing urgent needs for cash to meet employee payroll and provide crucially important paid sick leave.

Many of these corporations provide pension plans that are essential to the long-term financial security of millions of Americans. But most of the benefits from these plans are not due until far in the future. Under the current funding rules, implemented by the Pension Protection Act of 2006, most corporate plans are sufficiently funded to pay participants their benefits for at least several years without any additional cash infusions. But those rules will still require many employers to make contributions to their pension plans at a time when cash is critically needed elsewhere.

We therefore support a number of changes to let sponsors more effectively deploy cash to weather the immediate crisis, while still making provision for the longer-term funding of pension promises. Accordingly, we suggest Congress take immediate action to:

- Extend the due date for all required pension contributions — including quarterly payments due as soon as April 15 — that would otherwise be due during calendar year 2020, until at least the end of the year. Sponsors relying on this relief should not be subject to any penalties or reporting requirements that would normally apply to a delay in funding.

- Suspend the requirement that certain plans' adjusted funding target attainment percentage (AFTAP) drop by 10% on the first day of the fourth month (April 1 for calendar year plans)
- Extend the deadline for certain administrative tasks, such as preparing a PBGC 4010 filing (April 15 for employers with calendar-year fiscal years) and mailing the Annual Funding Notice to all participants (April 29 for calendar-year plans)

We fervently hope the COVID-19 pandemic will resolve soon, but the turmoil left in its wake will not quickly subside. Companies may find themselves struggling for months or years to regain their footing. Interest rates have never been this low, leading to inflated pension obligations, while at the same time, the equity markets in which pension plans invest are experiencing a historic loss in value. We therefore believe it is imperative that Congress adopt now additional pension relief over the longer term, giving economic conditions time to return to historical norms. Specifically, we suggest the following changes effective starting with the 2020 plan year:

- Defer the beginning of the scheduled phase-out of interest-rate-stabilization provisions — enacted in 2012 in reaction to historically low (at the time) interest rates — from 2021 to 2026.
- Increase the minimum stabilized interest rates so they are based on 95% of a 25-year average of segment interest rates, rather than the current 90%.

We estimate these changes would lower the aggregate corporate pension obligations (as measured for funding purposes) by approximately $90 billion as of January 1, 2020 $180 billion as of January 1, 2021 and $250 billion as of January 1, 2022.[1] While some plans will continue to be well-funded despite recent losses, those that are underfunded face a rapid amortization of unfunded liabilities. Reducing the measured obligations will substantially lower the required amortization payment for these plans, freeing up a significant amount of cash for companies to invest in their businesses and support the long-term health of the economy.

Given the extreme circumstances the country is facing, even the above measures might not provide sufficient relief for some employers. We understand some organizations have proposed other changes that would further extend the timing of required pension contributions, such as a longer amortization period for unfunded liabilities and extended smoothing of asset losses incurred during 2020. These changes would provide additional flexibility for companies struggling to cover their immediate needs, without changing their ultimate pension obligation. We therefore strongly encourage Congress to consider these additional proposals as well.

1 Liabilities were estimated from the most recently filed form 5500s and rolled forward using standard actuarial techniques, assuming annual benefit payments equal to 10% of retiree liabilities and adjusted to reflect anticipated changes in the stabilized segment interest rates.

Mercer will continue to work closely with our clients to ensure their economic resilience throughout the pandemic by focusing on supporting their employees. We also 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,

Martine A. Ferland
President and CEO, Mercer