THE WHITE HOUSE

WASHINGTON

March 4, 2004

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

Dear Mr. Chairman:

The Senate amendment to H.R. 3108 (the Pension Funding Equity Act) contains language that would weaken important worker protections by allowing significant systemic pension underfunding. If these provisions are not stricken in conference, the President's senior advisors will recommend that he veto the legislation.

Specifically, the Senate language would allow sponsors of single-employer defined benefit pension plans to apply to the Secretary of the Treasury to be excused from a significant portion of their pension funding obligations. The Senate language would also relieve sponsors of multi-employer pension plans from a substantial portion of their funding obligations.

Pension funding represents a commitment by employers to their workers. Pension underfunding threatens workers and retirees, who depend on the pension system to be predictable and reliable. If the Congress encourages firms to underfund their pensions, retirees could face pension cuts when a firm terminates its plan.

The Pension Benefit Guaranty Corporation (PBGC) has reported a record single-employer program deficit of $11.2 billion through the end of 2003, three times larger than any previously recorded deficit. The General Accounting Office has placed the PBGC's single-employer pension program on its "high risk" Federal program list. PBGC has also reported the first multi-employer program deficit in two decades.

Clearly, this is not the time to further erode pension funding by suspending or weakening funding requirements now in the law. The interest rate provisions in H.R. 3108 would by themselves provide timely and substantial funding relief to sponsors of pension plans. To excuse sponsors of underfunded plans from a good portion of their remaining near-term funding obligations would irresponsibly weaken our pension system, jeopardizing the benefits that America's workers have earned.

The Administration is interested in working with Congress to review the operation of the existing funding rules and to promote stronger pension funding over time. America's workers, however, must not be exposed to the consequences of weakening the existing funding requirements without an effective replacement. Our preference is for the President to receive H.R. 3108 as it passed the House. The President's senior advisors will recommend that he veto H.R. 3108 if these objectionable provisions in the Senate amendment are not removed.

Sincerely,

Elaine L. Chao
Secretary of Labor

John W. Snow
Secretary of the Treasury

Donald L. Evans
Secretary of Commerce

Joshua B. Bolten
Director
Office of Management and Budget

Stephen Friedman
Assistant to the President for Economic Policy

Identical Letters Sent to:

The Honorable Max Baucus
Committee on Finance
United States Senate

The Honorable Judd Gregg
Chairman, Committee on Health, Education,
Labor and Pensions
United States Senate

The Honorable Edward M. Kennedy
Committee on Health, Education, Labor
and Pensions
United States Senate

The Honorable Mitch McConnell
United States Senate