



# AMERICAN ACADEMY *of* ACTUARIES

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May 3, 2006

The Honorable Samuel Wright Bodman  
Secretary, Department of Energy  
1000 Independence Avenue, SW  
Room 7A-257  
Washington, DC 20585-1000

Re: New Policy for Contractor Benefit Reimbursements

Dear Secretary Bodman:

On behalf of the American Academy of Actuaries' Pension Practice Council,<sup>1</sup> I would like to express our strong objections to the Department of Energy's new policy that would no longer reimburse contractors for costs associated with defined benefit plans for new employees.

Our chief concerns with this policy are these:

**The policy is anti-retirement security.** Defined benefit (DB) plans, the centerpiece of this country's private retirement system, are vital to assuring retirement security for millions of our nation's workers. The Department's policy goes against decades of a balanced public-private national retirement security policy.

**The policy is anti-voluntary retirement system.** This policy essentially denies a government contractor the ability to choose the type of retirement plan it provides to prospective employees. Employer choice is fundamental to our voluntary private retirement system. This policy effectively forces the Department's contractors to select 401(k)-type arrangements/profit-sharing plans as their only retirement plan, despite the fact that many employers strongly prefer defined benefit plans, or a combination of plans, for both current and prospective employees. A policy that deprives the private sector of its right to provide these plans can only do damage to our voluntary private retirement system.

**The policy does not responsibly address concerns about cost levels.** We accept the Department's position that it does not want to reimburse costs of excessively generous benefits. However, both DB and defined contribution (DC) plans can be designed to create costs at any level. DB plans are not inherently more expensive than DC plans. In fact, to provide comparable levels of retirement benefits DB plans are typically much cheaper than DC plans for the new hires that the new policy would exclude. As such, precluding DB plans cannot be justified on a cost basis.

**The policy does not responsibly address concerns about cost volatility.** We also appreciate the Department's concerns about the volatility of contractors' defined benefit pension costs. There are, however, several responsible ways of mitigating such volatility that the Department has overlooked. For example, employer cost volatility can be reduced or eliminated through use of new plan designs or different investment approaches.

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<sup>1</sup> The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

The council believes the Department's decision is seriously detrimental to the interests of American workers who have come to depend on the defined benefit pension system in particular and the nation's public/private retirement partnership in general. We respectfully request that this action be immediately rescinded.

If you have any questions or would like to discuss this matter further, please contact Heather Jerbi, the Academy's senior pension policy analyst (202.785.7869; [Jerbi@actuary.org](mailto:Jerbi@actuary.org)).

Sincerely,

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Vice President, Pension Practice Council  
American Academy of Actuaries