

MERCER

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June 14, 2006

The Honorable William H. Frist
Majority Leader
United States Senate
509 Hart Senate Office Building
Washington, D.C. 20510

Re: Include language in Defense authorization bill (S 2766) to block Department of Energy's policy limiting reimbursement of contractors' pension costs

Dear Senator Frist:

On behalf of Mercer Human Resource Consulting and our clients whose workers stand to lose critical retirement and health benefits under the Department of Energy's recently announced benefit policy for contractors, I urge you to support adding language to the Defense authorization bill to block the policy (DOE N 351.1).

The House of Representatives has, as part of an appropriations bill (section 311 of HR 5427), already voted to block the DOE policy, which would bar the reimbursement of contractors' pension expenses for new workers and place severe limitations on the benefits that could be offered through 401(k) and medical plans. The DOE policy contravenes Congress's and the Administration's goal of improving the health of the defined benefit pension system.

DOE's misguided policy would:

- Infringe on contractors' ability to develop the most effective human resource and benefit programs for their workers.
- Directly increase contractors' expenses by essentially mandating two-tier benefit structures that will complicate the administration and communication of benefit plans and require more complex and expensive discrimination testing.
- Indirectly increase contractor expenses in several ways:
 - Lower retirement benefits will make it difficult for future employees to retire, causing many to continue working even when their productivity declines.
 - Contractors will have less flexibility in managing the workforce. Avoiding involuntary layoffs in slow economic times will become more difficult because employees with defined contribution (DC) plans will be less likely to leave a secure job if investments



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have declined. Contractors will not have the ability to offer early retirement incentives to future workers through a traditional pension plan.

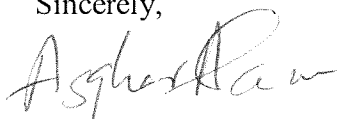
- Recruiting experienced workers will be more difficult, particularly in remote geographic areas where many DOE sites are located.
- Ignore the needs of future workers to have a diversity of financial resources and the security of a lifetime income in retirement.

We are acutely aware of the serious financial issues associated with some defined benefit pension plans, particularly the problems caused by volatile pension costs and unfunded liabilities. However, simply cutting pension – and health – benefits for future workers fails to recognize other actions that can be taken to limit volatility and improve the financial status of pension and health plans.

Again, we urge your support for legislation to block the DOE policy, which has the potential to adversely affect the retirement and health benefits of hundreds of thousands of Americans performing vital work on behalf of our country.

Thank you for your consideration of our views.

Sincerely,



Asghar Alam, FSA
Worldwide Partner
Retirement Business Leader for the Americas
Mercer Human Resource Consulting

cc: United States Senators