Congress of the United States
House of Representatives
Washington, DC 20515

May 10, 2006

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Ave., N.W.
Washington, DC 20500

Dear Mr. President:

We are shocked to learn that your Department of Energy (DOE) has announced two new policies that would penalize responsible contractors who offer comprehensive employee health and pension plans and would erode these benefits for millions of Americans. First, the DOE announced plans to no longer reimburse federal contractors for defined benefit pension plan costs for new employees. Second, the DOE announced new contractor reimbursement policies that would encourage employers to erode health benefits currently provided and shift a greater burden of health care costs onto employees. We strongly oppose these new policies. These changes would seriously undermine health and retirement security for the employees of federal contractors. We urge you to immediately withdraw the policy.

A press release from the Department announcing its **New Policy for Contractor Benefit Reimbursements** makes it clear that contractors who continue to provide pensions to their employees will be penalized financially. According to the Department's release, beginning March 2007, "[f]or new contractor employees, the Department will [only] reimburse contractors for the costs of their market-based defined contribution pension plans (similar to 401(k)) and market-based medical benefit plans…[and]…to provide a one-time option to employees currently in defined benefit pension plans who may wish to transfer to a new market-based defined contribution plan."

The Department's policy change also makes a number of detrimental and misguided changes to its health benefit reimbursement procedures. By tying reimbursement to a "market based medical benefit plan," the Department encourages contractors who provide comprehensive medical coverage to reduce such coverage and to further shift health care cost burdens onto employees, rather than addressing rising health care costs. The DOE directive requires all contractors to make clear that they can "unilaterally change, suspend, or terminate any medical plan, coverage or contribution at any time." It further limits the conditions under which retirees may receive retiree health benefit coverage.

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These changes penalize responsible employers who provide their employees with guaranteed retirement benefits and real, affordable health insurance. Perhaps even more important, these changes, coupled with last year's push for Social Security privatization and Administration efforts to shift more costs onto beneficiaries in Medicare and Medicaid and undermine workers' coverage through support of Association Health Plans and Health Savings Accounts, call into question your Administration's stated support both for preserving defined benefit pension plans and affordable health insurance coverage. Further, preserving defined benefit pension plans was one of your stated reasons for the pension reform proposals you made last year and that Congress now has under consideration. Moreover, the DOE directive sends the private sector a message that the federal government no longer supports guaranteed retirement benefits for workers or comprehensive health care. Such a message would be particularly damaging now, when we are fighting to persuade private sector employers to maintain their pension and health plans, rather than replacing them with risky 401(k) plans or other savings plans or dropping health coverage altogether.

The Energy Department's announcement is unjustified for a variety of policy reasons. First, the Department's policy change is not based on documented cost considerations and adequate employee benefit considerations. Nowhere does the Department document that this shift is based on or will lead to a reduction of federal government costs in a manner that provides adequate employee benefits. Second, the Department's policy flies in the face of federal law designed to ensure that the government does not manipulate or undercut the labor market. Laws such as the Davis-Bacon Act and the Service Contract Act require that government contractors pay at least the prevailing market wage – including prevailing benefits; however, instead of respecting long-standing federal policy, the Department's announcement actually imposes a ceiling on employee compensation, driving contractors to abandon basic standards for worker retirement benefits. Finally, by requiring Energy Department contractors to offer inadequate benefits to their employees, you set a precedent that could lead to a reduction of benefits for other employees of the federal government or of federal contractors, essentially a race to the bottom. This guidance runs counter to the Administration's free market ideology, essentially dictating what and how companies shall offer employees as compensation.

We strongly urge that your Energy Department withdraw this misguided new policy immediately. The federal government should not be leading a race to the bottom on health and retirement benefits for workers.

Sincerely,

JOHN D. DINGELL
Senior Democratic Member
Committee on Energy and Commerce

GEORGE MILLER
Senior Democratic Member
Committee on Education and the Workforce

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