

UPDATE: US Congressional Pension Talks Coming To A Head

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(Revises to note meeting scheduled for Tuesday)

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WASHINGTON (Dow Jones)--U.S. Congressional talks on a wide-ranging pension reform bill could come to a head Tuesday when negotiators meet to settle a handful of unresolved issues, said sources close to the negotiations.

Negotiators are debating whether to ease conflict-of-interest rules to allow financial services companies to give investment advice to 401(k) and IRA customers. They have also yet to decide whether to include in the final bill unrelated language that would make it easier for a health care plan to sue a customer to recover expenses from an accident involving a third party.

Negotiators met for about an hour Monday evening and plan to meet again Tuesday morning.

If the remaining, and admittedly thorny, issues are resolved, the rest of the agreement could quickly fall into place, said House and Senate aides and negotiators.

Congressional Republican leaders want the agreement reached quickly so the House can pass the bill this week, before leaving Washington for a five-week break. The Senate could then pass the bill next week, leaving President George W. Bush with the decision of whether to sign the bill into law.

The bill's primary focus is shoring up funding in the more than 30,000 defined benefit pension plans covering 44 million U.S. workers and retirees.

"We are finalizing work on the most sweeping pension reforms in more than a generation," House Majority Leader John Boehner, R-Ohio, said in a statement released by his office Monday.

While key House Democrats are already preparing their arguments against the bill, Senate Democrats have been involved in the pension talks and - but for the few remaining issues - appear to be ready to sign onto the plan.

Pension Bill Would Affect Most Retirement Plans

The bill touches on almost every federally regulated retirement system except veteran's benefits and Social Security.

It is expected the final bill would allow companies to automatically enroll employees in their 401(k) and 403(b) accounts, alter federal age discrimination laws to clear the way for the creation of so-called cash balance pension plans, require companies with a traditional pension plan to do a better job of warning employees if that plan is at financial risk and make permanent certain individual retirement account tax breaks.

Negotiators have also agreed that the bill, in the long run, should force companies to better fund their pension promises.

But deciding how companies would fare under the bill in the near term depends on who is asked and the benchmark they pick.

Compared to current law, which requires companies to use the 30-year Treasury bond rate in pension calculations, companies are in line to receive a substantial funding break over the next three years, according to the Pension Benefit Guaranty Corp., a federal corporation that guarantees pension benefits.

But the bill's proponents and the White House argue that the 30-year Treasury bond is no longer a realistic benchmark for pension calculations.

By comparison to what Boehner, White House officials and others call a more realistic baseline - one assuming roughly \$100 billion less in pension contributions over the next decade - the pension bill looks roughly the same as current law in the next five years, and slightly better than current law in the five years after that.

The bill's proponents, including Boehner and House Ways and Means Committee Chairman Bill Thomas, R-Calif., say the bill looks better yet in the second 10 years, when all the funding provisions are in full effect.

Exceptions To New Funding Rules For Airlines

There is no doubt that some airlines will see their pension funding rules eased. Negotiators are expecting to get a final version of the airline provisions Monday night.

Under the framework of an agreement reached by negotiators last week, Northwest Airlines Corp. (NWACQ) and Delta Air Lines Inc. (DALRQ) were expected to have 25 years to fully fund their pension plans, according to aides familiar with the agreement.

By comparison, the bill would require other companies to amortize underfunding in their pensions over seven years, though relatively-well funded pension plans would be given a slight additional break with a three-year phase-in of rules requiring the plan to be 100% funded.

American Airlines, owned by AMR Corp. (AMR), and Continental Airlines Inc. (CAL) could qualify for the three-year phase-in, but still would be required to amortize their underfunding over seven years, according to aides familiar with the draft agreement.

Defense contractors complaining they can't, under current federal contracting rules, include increased pension contributions as a cost on their existing contracts may also see some relief. While their pension contributions may not be lowered, negotiators might agree to change federal contracting laws to reimburse the contractors for the added expense, said several congressional aides.

Defense contractors that could benefit from this proposal include Raytheon Co. (RTN), Lockheed Martin Corp. (LMT), Northrop Grumman Corp. (NOC), BAE Systems PLC (BA.LN) and General Dynamics (GD), according to a House Republican aide.

Investment Advice Debate Becoming More Contentious

Key to the negotiations is whether Boehner, Thomas and Senate Finance Committee Chairman Charles Grassley, R-Iowa, can reach agreement on a provision that would allow 401(k) and IRA providers to advise customers on how to invest their retirement accounts.

Boehner has been seeking the change for nearly seven years. The issue didn't come up until recently in the pension talks, then the debate quickly became heated and by some accounts even nasty.

Boehner argues that with the decline of traditional pensions and lagging U.S. savings rates, Americans need all the investment advice they can get for their individually directed retirement accounts.

Grassley and others agree, but noted that allowing providers to give customers conflicted advice isn't the answer. For example, encouraging them to invest in highly managed funds with high costs could actually cost customers in the long run, said one Senate aide.

As a result, Boehner, Grassley and Thomas have agreed that 401(k) investment advice must be given based upon an unbiased computer model that takes into consideration many aspects of the customer's financial life. The computer model could be designed by the 401(k) provider, but would be subject to review for bias by a neutral third party.

The sticking point now is what to do with IRAs.

Boehner would like to lift the current prohibition against giving investment advice while maintaining the IRA provider's other fiduciary duties to the customer.

Grassley and Thomas say that IRA providers should be required to use the same type of computer model, subject to the same third party review, as prescribed for 401(k) providers.