

House Leadership's Summary
Of Just-Passed Pension Bill
July 29, 2006

House Republican Leadership's Summary of Pension & Retirement Savings Provisions in
the Pension Protection Act

I. REFORMING OUTDATED SINGLE-EMPLOYER DEFINED BENEFIT PENSION LAWS

*The pension reform bill that reflects the House-Senate compromise ensures employers
and unions fund their pension promises to workers by:*

Providing a permanent interest rate based on a modified "yield curve" for employers to
more accurately measure current pension liabilities as they come due;

Requiring employers to make sufficient contributions to plans in order to meet a 100
percent funding target and erase funding shortfalls over seven years;

Prohibiting employers from using credit balances if their plans are funded at less than 80
percent;

WHAT WOULD CHANGE?

Review the GOP's [point-by-point comparison](#) to the current law.

Triggering accelerated contributions for "at-risk" plans. A plan is deemed at-risk if it fails
to meet one of two tests. First, it would be deemed at-risk if it falls below 70 percent
funded status using the worse-case scenario assumptions (i.e., employers cannot count
credit balances and must assume employees take the most expensive benefits and retire at
the earliest possible date). If an employer does not meet this test, it can forgo at-risk
status only if it is 80 percent funded using standard assumptions (this test would be based
in over three years, starting at 65 percent in 2008 and rising to 70 percent in 2009, 75
percent in 2010, and 80 percent in 2011). If a company meets one of the two tests, it
would avoid the at-risk designation; however it would still be required to make up its
overall funding shortfall over seven years like any other underfunded plan;

Reducing the smoothing of interest rates to two years (instead of five for assets and four
for liabilities under current law) to improve funding accuracy and protect plans against
market and funding volatility;

Permitting employers to make additional maximum deductible contributions of up to 180
percent of current liability;

Prohibiting employers and union leaders from increasing benefits if a plan is less than 80
percent funded, unless the benefits are paid for immediately;

Prohibiting further benefit accruals for lump sum distributions or shutdown benefits from plans funded at less than 60 percent. Once a plan is above 60 percent, the employer and the union then decide how to credit past service accruals;

Restricting the use of deferred executive compensation arrangements for employers with severely underfunded plans;

Permanently establishing an employer-paid termination premium of \$1,250 per participant if a plan sponsor terminates its employee pension plan upon entering bankruptcy. The plan sponsor would pay the premium after a company emerges from bankruptcy;

Giving airlines that opt for a "hard freeze" of their pension plans an additional 10 years to meet their funding obligations and avoid defaulting on their plans and turning these obligations over to the PBGC. An employer-paid termination premium of \$2,500 per plan participant also must be paid by these airlines if they terminate their employee pension plan upon entering bankruptcy. The plan sponsor would pay the premium after a company emerges from bankruptcy; and

Giving airlines that opt for a "soft freeze" of their pension plans an additional three years to meet their funding obligations and avoid defaulting on their plans and turning these obligations over to the PBGC. An employer-paid termination premium of \$2,500 per plan participant also must be paid by these airlines if they terminate their employee pension plan upon entering bankruptcy. The plan sponsor would pay the premium after a company emerges from bankruptcy. For these airlines, the bill also extends the deficit reduction contribution relief – that was included in the 2004 *Pension Funding Equity Act* – through 2007.

II. REFORMING THE MULTIEMPLOYER PENSION SYSTEM ON BEHALF OF WORKERS

The pension reform bill that reflects the House-Senate compromise strengthens the multiemployer pension system to ensure these plans are better funded by:

Identifying underfunded multiemployer pension plans and establishing quantifiable benchmarks for measuring a plan's funding improvement;

Providing new notice requirements for underfunded plans;

Changing the amortization schedule for any plan benefit amendments from 30 years to 15 years;

Increasing the maximum deductible limit to 140 percent of current liability, providing additional funding flexibility for plans each year;

Requiring plan trustees to improve the health of the plan by one-third within 10 years if a plan is less than 80 percent funded or will hit a funding deficiency within seven years;

Prohibiting benefit increases if the increase causes the plan to fall below 65 percent funded status; and

Establishing new funding standards and possible benefit restrictions for multiemployer plans that are funded at less than 65 percent.

III. ESTABLISHING LEGAL CERTAINTY FOR HYBRID PENSION PLANS

The pension reform bill that reflects the House-Senate compromise ensures hybrid pension plans – such as cash balance plans – remain a viable part of the defined benefit system by:

Ending the legal uncertainty surrounding cash balance pension plans and ensuring they remain a viable retirement security option for workers and employers; and

Establishing a simple age discrimination standard for all defined benefit plans that clarifies current law with respect to age discrimination requirements under ERISA on a prospective basis.

IV. PROVIDING WORKERS WITH MEANINGFUL RETIREMENT SECURITY PROTECTIONS

The pension reform bill that reflects the House-Senate compromise strengthens retirement security safeguards to preserve workers' and retirees' peace of mind by:

Requiring both single and multiemployer plans to include more detailed and specific information on their Form 5500 filings, the equivalent of a pension plan's federal tax return;

Enhancing Form 4010 disclosure requirements and making all Form 4010 information filed with the PBGC available to the public, except for sensitive corporate proprietary information;

Establishing a 80 percent, at-risk threshold that determines whether plans pose a threat to the PBGC and therefore file 4010 information;

Requiring both single and multiemployer pension plans to notify workers and retirees of the funded status of their plan within 120 days after the close of the plan year;

Giving employers the option of allowing workers to sell their company stock three years after receiving it in their 401(k) plan;

Prohibiting companies from forcing employees to invest any of their own retirement savings contributions in the stock of the employer;

Making clear that companies have a fiduciary responsibility for workers' savings during "blackout" periods, when workers are temporarily barred from making changes to their 401(k) investments; and

Requiring companies to give workers quarterly benefit statements that include information about accounts, including the value of their assets, their rights to diversify, and the importance of maintaining a diversified portfolio.

V. PROVIDING WORKERS WITH ACCESS TO HIGH-QUALITY INVESTMENT ADVICE

The pension reform bill that reflects the House-Senate compromise provides – for the first time ever – voluntary, professional investment advice to workers by:

Permitting qualified "fiduciary advisers" to offer face-to-face, personally-tailored investment advice to help employees manage their 401(k) and other retirement options;

Requiring tough fiduciary and disclosure safeguards to ensure that advice provided to employees is solely in their best interest;

Requiring fiduciary advisers for employer-sponsored plans [such as 401(k)s] to base their recommendations on a computer model that is certified and audited by an independent party; and

Requiring fiduciary advisers for non-employer sponsored plans [such as IRAs] to charge a flat rate fee for one year (with no computer model). During that time, the U.S. Department of Labor, in consultation with Treasury, will study whether a computer model exists to tailor professional investment advice to an individual's own unique needs based on personal and subjective criteria about their financial and family circumstances, taking into account the full range of investment options available to IRAs, including equities and bonds. If they cannot certify that such a model exists, then the advisers would be free to provide advice free from the prohibited transaction exemption as long as they certify in writing that the company has adopted written policies and procedures which ensure that the investment advice provided is in the employee's best interest.

VI. MODERNIZING DEFINED CONTRIBUTION LAWS TO ENCOURAGE RETIREMENT SAVINGS

The pension reform bill that reflects the House-Senate compromise makes significant reforms to ensure Americans have more opportunities than ever to save for their retirement by:

Encouraging employers to automatically enroll workers in defined contribution pension plans, while giving workers the option to opt-out of the plans;

Making permanent the individual retirement account (IRA) and pension provisions enacted under 2001 tax cut legislation. The 2001 law increased annual contribution limits for IRAs and qualified pension plans, created additional "catch-up" contributions for individuals age 50 and older, and created incentives for small employers to offer pension plans. These reforms – initially enacted in 2001 – are scheduled to expire in 2010;

Extending permanently indexing to inflation the "Savers' Credit," which is set to expire after December 31, 2006. This credit allows eligible individuals who make contributions to an IRA or qualified pension plan to receive a federal "match" in the form of an income tax credit for the first \$2,000 of annual contributions;

Giving taxpayers the option of "split tax refunds," in which they may choose to deposit a portion of their federal tax refund directly into an IRA;

Waiving a 10-percent early IRA distribution penalty for military reservists and national guardsmen who are called to active duty for at least 180 days. Withdrawn amounts may be repaid to the IRA or pension plan within two years of the distribution without regard to the annual contribution limits;

Waiving the 10-percent early distribution penalty for public safety employees who participate in governmental pension plans with a Deferred Retirement Option Plan (DROP) benefit feature;

Allowing tax-free rollovers from the IRA or pension of a deceased individual to an IRA or pension of a designated beneficiary. Under current law, such transfers are tax-free only if made to the account of a spouse; and

Allowing disabled individuals to contribute to an IRA even if they do not have earned income.

VII. ENSURING AFFORDABILITY OF HEALTH CARE AND LONG-TERM CARE

The pension reform bill that reflects the House-Senate compromise takes important steps to help workers and retirees combat rising costs of health insurance by:

Encouraging the development of combination insurance products, which provide consumers with various insurance protections in a single product while also providing a saving feature. Combination products may be more attractive to consumers and less expensive.

Source: Office of House Majority Leader John Boehner

