

# PENSION REFORMS FAR STRONGER THAN CURRENT LAW

## Analysis of the House of Representatives' bill by House majority leadership

ISSUE	CURRENT LAW	EXPECTED CONFERENCE AGREEMENT
<b>FUNDING RULES</b>		
Full Funding Level	90 percent	100 percent
Amortization Periods	General rule: up to 30 years; only severely underfunded plans must fund up in 4 to 7 years	All plans required to be fully funded in 7 years
At-Risk Status & Higher Funding Standard	Deficit Reduction Contributions including certain loopholes and exceptions	Ensures higher funding standard because new "At-Risk" status based on plan funding level and projections of future subsidized benefits and lump sums
Credit Balances	Unlimited use. Credit balance continues to increase with plan's assumed rate of return, even if there is an equity loss.	Prohibited in plans below 80 percent funded
<b>ACCURACY</b>		
Interest Rate	One size fits all interest rate that does not take into account age of workforce	Rate based on modified yield curve to more accurately measure pension liabilities as they come due
Smoothing	Assets – 5 years Liabilities – 4 years	Reduced to 2 years for both
Mortality Tables	Based on 1983 data	Based on 2000 data; requires projected mortality improvements
<b>BENEFIT LIMITATIONS</b>		
New Promises	Allowed by all plans over 60 percent funded	Prohibited in plans below 80 percent
Lump Sums	Permitted in nearly all cases, regardless of plan funding – digging pension hole even deeper	Prohibited in plans below 60 percent. Partial payment allowed between 60-80 percent
New Accruals	Never frozen by law	Frozen for plans below 60 percent
Shutdown Benefits	Unfunded severance benefits can be paid out of pension plan assets	Prohibited in plans below 60 percent; Treated like benefit improvement for PBGC maximum guarantee purposes
Executive Compensation	No restrictions	Prohibited in plans that are at-risk or plans that are in bankruptcy.
<b>PBGC PREMIUMS</b>		
Variable Rate Premium (VRP)	VRP based on unfunded vested benefits BUT major loophole is full funding limitation exemption	ELIMINATES full funding limitation exemption. Plans required to pay VRP if less than 100 percent funded.
Termination Premium	No Termination Premium	Termination premium of \$1,250 per participant if a plan sponsor terminates unfunded pension plan. Former plan sponsor must pay after company emerges from bankruptcy.
<b>DISCLOSURE</b>	Disclosure fails to provide timely and accurate notice about status of pension benefits	Requires several new disclosures and strengthens existing disclosure for participants.
<b>ADVICE</b>	Current law restricts worker access to professional investment advice	Provides workers with new access to qualified advisers to help them with 401(k) and IRA investment options
<b>HYBRIDS</b>	Lawsuits and legal uncertainty that jeopardizes future development of new defined benefit plans	Provides legal certainty to ensure employers can offer hybrid plans in the future free from frivolous litigation
<b>RETIREMENT SAVINGS</b>	Lack of savings incentives	Automatic enrollment will increase participation and savings

