APPENDIX

PENSION EQUITY PLANS

What is a pension equity plan? In general, a pension equity plan is a defined benefit pension plan that expresses a participant's benefit as a lump-sum amount, calculated primarily on the basis of the participant's years of service and final average pay. Typically, a participant accumulates percentage points while working, and the sum of the percentage points is multiplied by the participant's final average pay to determine the participant's lump-sum amount. Final average pay is generally defined as the participant's average annual pay during a specified period (typically, either three or five years) in which the participant's pay is the highest.

How does a pension equity plan work? The rate at which a participant earns additional percentage points typically increases as the participant ages. For example, a pension equity plan might provide that a participant earns percentage points on the following schedule:

Age	Number of Percentage Points Per Year of Service
Under 30	5
30 to 34	6
35 to 39	7
40 to 44	9
45 to 49	12
50 and Older	15

When a participant terminates employment, the participant's total percentage points are added up and multiplied by the participant's final average pay to produce the lump-sum amount. For example, under the illustrative schedule presented above, a participant who retires at age 55 after completing 20 years of service would have a lump-sum amount equal to 215% of final average pay (5 years at 7 percentage points per year (35%), 5 years at 9 percentage points per year (45%), 5 years at 12 percentage points per year (60%), plus 5 years at 15 percentage points per year (75%)).

Some pension equity plan have benefit schedules that are more complex. For example, some plans award additional percentage points to a participant after he or she has completed a specified number of years of service. The illustrative schedule presented above could be modified to provide, for example, that after a participant has completed 20 years of service, the participant is credited with two additional percentage points for each year of service (so that, instead of earning 12 percentage points for each year of service between ages 45 and 49, a participant who has completed 20 years of service earns 14 percentage points for each year of service between ages 45 and 49).

If the participant does not begin to receive a pension immediately after terminating employment, the participant's lump-sum amount is credited with interest between the employment termination date and the benefit commencement date.

How are benefits paid under a pension equity plan? Because a pension equity plan is a defined benefit plan, a pension equity plan must provide benefits in the form of an annuity. Although a pension equity plan may allow a participant to elect to receive his or her benefits in a lump sum, benefits may be paid in a lumps sum only if the participant so elects (with spousal consent if the participant is married). In this respect, a pension equity plan operates like a cash balance plan.

Why is a pension equity plan considered to be a hybrid plan? A pension equity plan is a hybrid plan because, like a cash balance plan, it is a defined benefit plan that expresses each participant's benefit as a lump-sum amount, rather than as an annuity. Thus, like a cash balance plan, a pension equity plan combines some of the features of a defined contribution plan with the security of a defined benefit plan.

How does a pension equity plan differ from a cash balance plan? A cash balance plan indexes the benefits a participant earns each year based on interest. By contrast, because of its final average pay feature, a pension equity plan indexes the benefits a participant earns each year based on the participant's pay: as a participant's pay increases, so does the participant's lump-sum amount. On the other hand, between the participant's employment termination date and the participant's benefit commencement date, a pension equity plan operates much like a cash balance plan: during this period, benefits are indexed on the basis of interest under both plans.

Because of their final average pay feature, pension equity plans tend to allocate benefits more toward long-service employees than to short-service employees who do not remain employed by the employer long enough to benefit significantly from the plan's final average pay feature. By contrast, cash balance plans tend to allocate benefits more evenly among short-service and long-service employees.