SUMMARY OF BUSH ADMINISTRATION'S PENSION FUNDING PROPOSALS

At this time, it is clear that the Bush Administration is committed to proposing a corporate bond yield curve as the mandated discount rate for pension funding purposes. Administration teams have been working with bond experts to construct a corporate bond yield curve that they believe would be appropriate for pension funding purposes. This yield curve may apply for all minimum contribution rules (i.e., not solely for the "current liability" funding rules first enacted in 1987).

At the same time that the yield curve proposal is unveiled, the Administration is expected to make several other proposals regarding pension funding and the Pension Benefit Guaranty Corporation (PBGC). Based on testimony by Treasury officials, an outline of areas to be addressed follows.

- Eliminate the current law smoothing of liability calculations. (The yield curve rate would be smoothed over 90 days only.)
- Focus the new discount rate (yield curve) on each plan's unique schedule of future benefit payments (or cash flow profile).
- Restrict or eliminate smoothing of asset measurement.
- Require a plan's retirement assumptions to reflect the actual retirement behavior of plan participants.
- Include in liability calculations reasonable estimates of expected future lump sum withdrawals.
- Update mortality assumptions.
- Raise the limits on deductible contributions.
- Restrict or eliminate use of credit balances to reduce future minimum contribution requirements.
- Reduce year-to-year volatility in contributions.
- Reduce the current 30-year amortization period for new benefits.
- Require the annual disclosure to plan participants of the plan's funded status on both a current liability and termination liability basis.
- Make public certain financial data collected by the PBGC from companies sponsoring pension plans with more than $50 million in underfunding.
- Freeze the plan and prohibit benefit improvements in or lump sum distributions from plans with a funded ratio below 50% of termination liability that are sponsored by a firm with a below investment grade credit rating.
- Freeze the PBGC's guarantee limits when a plan sponsor files for bankruptcy.
- Limit or eliminate guarantees of benefit that typically are not funded (e.g., shut down benefits).
- Revise the PBGC premium structure to reflect the risk posed by various plans.