Pension Stability Act, S. 1550
Senator Judd Gregg (R-NH)

The **Pension Stability Act**, S. 1550, provides a responsible, immediate solution to the pension funding crisis facing our economy, while developing the glide path toward permanent solutions to major problems in the defined benefit system.

Congress must act quickly to replace the unreliable and unrealistically low 30-year Treasury Bond rate, or companies will be forced to divert billions of dollars from capital investment and job growth in order to satisfy arbitrary pension funding rules. Pension law relies on the 30-year Treasury bond, which is no longer being issued, to determine funding levels. A short term solution, such as the two-year fix adopted in 2002, would only exacerbate the uncertainty that businesses and their unions face in planning for the future.

The **Pension Stability Act** solves the immediate problems of the pension system, while respecting the need for fiscal responsibility and ensuring that enactment of permanent solutions remains in the forefront of Congressional attention.

1) **Statutory Interest Rate**: The **Pension Stability Act** replaces 30-year Treasury Bond rate with a composite corporate bond rate determined by the Treasury Department based on conservative indexes. In line with the Bush Administration proposal, for 2004 and 2005 the bill directs that plan sponsors may fund their plans at the rate of 105% of the composite corporate rate. In order to ensure adequate funding for pensions, the discount rate drops to 100% of the composite corporate rate for 2006-2008.

2) **Sunset**: After five years (through 2008), the minimum funding rate reverts to 105% of 30-year Treasury Bond rate. The five-year period is considered essential both for collective bargaining and corporate financial planning purposes. This longer period is necessary as well as in order to give Congress time to address the very many long term problems with defined benefit system. It is anticipated that a permanent solution to the funding, lump sum, and other issues will be enacted before the expiration of this temporary fix.

3) **Rate for Lump Sum Distributions**: Currently the interest rate for calculating individual lump sum distributions is the same as for determining pension funding levels. As the 30-year Treasury bond rate has declined, the calculations for lump sum distributions have become arbitrarily inflated. Although such distributions were originally intended to mirror the present value of an annuity, the effect of the low 30-year Treasury rate has been to create larger lump sum distributions than annuities, thus draining money out of the plans. Most analysts and policy experts agree that the rate should remain the same as for funding rules when a new benchmark for the 30-year Treasury bond rate is adopted. In order to avoid undue disruption of legitimate expectations, however, the bill continues current law for two years (2004 and 2005) and then begins to phase in the composite corporate rate in the next three years, based on the following schedule – 2006 - 20%; 2007 - 40%; 2008 - 60%. If no action is taken by Congress by the end of 2008, the rate for lump sum distributions reverts to the 30-year Treasury Bond rate.

4) **Bi-Partisan Blue Ribbon Commission**: The **Pension Stability Act** creates a commission to review all outstanding issues, including all of the issues that the Bush Administration has put on the table, and report to Congress at the end of 2006. Members of the Commission, appointed by the President and chairmen and ranking members of the relevant committees in the House and Senate, will be drawn from government, business, labor, and pension rights groups.