ERIC

The ERISA Industry Committee

Advocating the Employee Benefit & Compensation Interests of America's Largest Employers

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REPLACING THE 30-YEAR TREASURY BOND FOR PENSION REGULATION

SUMMARY OF ISSUE:

Companies must calculate the liabilities of their pension plans using a weighted average of the 30-year U.S. Treasury bond rate. The bond was discontinued and, as a result, reflects a rate far below that which is reasonable to measure liabilities. The lower rate has so artificially inflated liability calculations that it threatens large numbers of plan sponsors with cash contribution requirements that are dramatically higher than is prudent or necessary. These requirements are sapping cash needed to grow the economy and causing some sponsors to freeze or terminate their plans. According to Employee Benefit News, 15% of plan sponsors already have frozen their plans.

All segments of the private sector, both Houses of Congress, and the Administration have agreed that the 30-year bond should be replaced for 2004 and 2005 with a high quality, long-term corporate bond rate. Yet final action still has not been taken. Congress and the Administration have a duty to complete their work <u>now</u> to replace the 30-year bond with the agreed-upon corporate rate. Failure to do so will jeopardize the financial security of thousands of major employers and the retirement security of millions of workers.

HISTORY OF ISSUE:

- 30-year Treasury bonds began to deviate from the rest of the long-term bond market in 1998. ERIC at this time urged the government to select a more appropriate benchmark for pension calculations.

- The government ceased to issue 30-year Treasury bonds entirely after October 31, 2001. ERIC urged that the now defunct rate be permanently replaced by a corporate bond rate.

- In March 2002 a "temporary fix" for pension calculations for 2002 and 2003 was enacted as part of P.L.107-147. Specifically, for 2002 and 2003, plan liabilities could be calculated using a rate up to 120% of the defunct 30-year Treasury bond rate average.

- In August 2002, ERIC proposed that the temporary fix be replaced with a composite corporate bond rate composed of the arithmetic average of high quality, long term corporate bond indexes.

- On April 11, 2003, a proposal similar to ERIC's was included in H.R.1776 by Reps Portman and Cardin.

- In July 2003, the Administration endorsed the Portman-Cardin corporate bond proposal for the years 2004 and 2005.

- On September 17, 2003, the Senate Finance Committee unanimously approved a wide-ranging pension bill that included replacing the 30-year bond with a composite corporate bond rate for 2004, 2005, and 2006 as well as deficit reduction contribution relief for plan sponsors not subject to these extra contribution rules in the year 2000.

- On October 8, 2003, by a vote of 397-2, the House of Representatives approved H.R.3108, which included a proposal similar to that in H.R.1776.

- On October 29, 2003, the Senate Health, Education, Labor and Pensions Committee unanimously approved S.2005, which provided for a composite corporate bond rate for 2004, 2005, and 2006.

- On November 20, 2003, the House of Representatives again approved the corporate bond proposal as part of H.R.3521, a bill extending certain expiring tax provisions and also including relief for deficit reduction pension contributions for airlines.

- On January 21, 2004, the Senate, by a vote of 86-9, approved legislation (H.R.3108) that would impose the corporate bond rate for 2004 and 2005 and that also included deficit reduction contribution relief as well as relief for multi-employer plans.

- **SUMMARY:** Although the problems with continuing to use the 30-year Treasury bond for pension regulation have been evident since 1998, and although the government discontinued issuing the bond in 2001, the government has not yet taken final action to provide employers who sponsor pension plans entirely on a voluntary basis with a rational and appropriate rate to use in calculating their pension liabilities. Billions of dollars will unnecessarily be siphoned off from the economy on April 15 when companies who still maintain their plans will be forced to make unreasonable contributions based on a broken, government-imposed interest rate.

- We appreciate that there are ancillary issues connected with the agreed-upon replacement of the 30-year bond. We strongly urge that Members of Congress and the Administration act now to resolve those issues and enact a final bill.

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