Comparison of Significant Pension Reform Proposals

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The ERISA Industry Committee (ERIC) is a nonprofit association committed to the advancement of the employee benefit plans of America's major employers. ERIC's members' plans are the benchmarks against which industry, third-party providers, consultants, and policy makers measure the design and effectiveness of employee benefit, incentive, and compensation plans. ERIC's members are engaged daily with meeting the demands of both their enterprise and the needs of employees. ERIC, therefore, is vitally concerned with proposals affecting its members' ability to provide employee benefits, incentive, and compensation plans, their costs and effectiveness, and the role of those plans in the American economy.

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Comparison of Significant Pension Reform Proposals

	ADMINISTRATION PROPOSAL[1]	ERIC PROPOSAL[2]	H.R. 2830[3]
Overview	• Repeal current funding rules for single-employer plans and replace with a system that uses the plan sponsor's financial health to determine funding targets. • No change to funding rules for multiemployer plans. • Increase PBGC premiums for all plan sponsors and replace variable-rate premiums with risk-based premiums. • Enhance pension disclosure requirements. • Prospectively clarify age discrimination rules for cash balance and other hybrid plans.	• Retain current funding rules for single-employer plans, but with some modifications. Reject Administration proposals to tie funding requirements to the plan sponsor's financial health. • No change to funding rules for multiemployer plans. • Reject Administration proposals relating to changing PBGC premiums. • Replace Summary Annual Report (SAR) with more meaningful disclosure requirement. • Retroactively and prospectively clarify age discrimination rules for cash balance and other hybrid plans, and make other changes to preserve hybrid plan designs.	• Repeal current funding rules for single-employer plans and replace with a system that uses the plan's funded status to determine funding targets. • Establish a structure for identifying troubled multiemployer pension plans and improving their funded status. • Increase PBGC premiums for all plan sponsors and replace variable-rate premiums with risk-based premiums. • Enhance pension disclosure requirements. • Prospectively clarify age discrimination rules for cash balance and other hybrid plans. • Create prohibited transaction exemption and special fiduciary protections to encourage 401(k) plan sponsors to make investment advice available to participants.
Minimum Funding Requirements			

[1] The Administration announced its pension reform proposals on January 10, 2005, and provided additional details in its proposed budget for the 2006 fiscal year. Additional details are available on the Administration's pension reform Web site, at http://www.dol.gov/ebsa/pensionreform.html.
[2] The ERISA Industry Committee ("ERIC") issued its pension reform proposals in May 2005. Additional details are available on ERIC's Web site, at http://www.eric.org.
[3] Representative John Boehner (R-OH) introduced H.R. 2830, the Pension Protection Act, on June 9, 2005. The Committee on Education and the Workforce, which Representative Boehner chairs, reported the bill on June 30, 2005. (Additional details are available on the Committee's Web site, at http://edworkforce.house.gov/.) This is a summary of the Committee-approved bill.

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Calculation of Liability	Depends on plan sponsor's financial health: • Healthy plan sponsors use "ongoing liability" • Financially weak plan sponsors use "at-risk liability". A plan sponsor is "financially weak" if it has senior unsecured debt rated below investment grade by each of the nationally recognized statistical rating organizations that have issued a credit rating for the debt. If the plan sponsor does not have senior unsecured debt that is rated, it is financially weak if all of the nationally recognized statistical rating organizations that have made an issuer credit rating for the plan sponsor have rated it below investment grade.	Same as current law.	Depends on plan's funded status: • For plans not at-risk, funding target = present value of all liabilities to participants and their beneficiaries under the plan for the plan year. • For "at-risk" plans, funding target = present value of all liabilities to participants and beneficiaries under the plan for the plan year (based on assumption all participants will elect lump sums at earliest opportunity) + a "loading factor" (($700 x No. of Plan Participants) + 4% of funding target). A plan is at-risk if its "funding target attainment percentage" for preceding plan year was less than 60%. A plan's funding target attainment percentage is the ratio of the value of the plan's assets (reduced by any credit balance) to the plan's funding target.
Valuing Assets	• Use current market rates. • No smoothing.	Same as current law.	• Use reasonable actuarial method that takes into account fair market value. • Asset values averaged over 3 years, but average must be 90% to 110% of assets' fair market values.
Valuing Liabilities	• Include probability that future benefit payments will be lump sums in the present value calculation. • Use corporate bond yield curve to calculate present value.	• Include probability that future benefit payments will be lump sums in the present value calculation. • Use composite corporate bond interest rate, currently in effect for	• Include probability that future benefit payments will be lump sums or other optional forms of benefit in present value calculation. • Use segmented corporate bond yield

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	• Corporate bond yield curve based on interest rates averaged over 90 days.	2004 and 2005 plan years only, to calculate present value. • No change to current law smoothing techniques (i.e., use 4-year weighted average interest rate to determine present value of current liability).	curve to calculate present value. (The segmented corporate bond yield curve consists of three separate rates, based on maturation dates: the first segment is based on bonds maturing within 5 years; the second segment is based on bonds maturing between 6 and 20 years; and the third segment is based on bonds maturing in more than 20 years. The bill gives the Treasury Secretary substantial discretion to establish the corporate bond yield curve.) The corporate bond yield curve is phased-in over a three-year period. • Segmented corporate bond yield curve based on 3-year weighted average interest rates as determined by Treasury. • Use RP-2000 Combined Mortality Table (Scale AA) to calculate present value. Plans can apply to use a different mortality table that reflects the plan's actual experience if significantly different from the RP-2000 Combined Mortality Table.
Valuation Date	First day of the plan year for plans with more than 100 participants.	Same as current law.	First day of the plan year for plans with more than 500 participants.
Minimum Contribution	• If market value of plan assets < 100% of applicable funding target, then minimum required contribution = applicable normal cost + required	Require deficit reduction contribution (DRC) payments if plan is less than 90% funded.	• If plan assets (reduced by any credit balance) < funding target, then minimum required contribution = target normal cost + required

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	amortization payments. • If market value of plan assets > 100% of applicable funding target by more than the applicable normal cost, then minimum required contribution = zero. • If market value of plan assets > 100% of applicable funding target by less than the applicable normal cost, then minimum required contribution = applicable normal cost less the excess of the plan assets over the funding target.		amortization payments + waiver amortization charge. • If plan assets (reduced by any credit balance) > funding target, then minimum required contribution = target normal cost less the excess of plan assets over the funding target. • In all other cases, minimum required contribution = target normal cost. • Waivers available in cases of temporary substantial business hardship.
Amortization Rules	If market value of plan assets is less than applicable funding target for a year, the plan must amortize the shortfall in 7 annual payments.	Plans must amortize plan amendments increasing benefits over 10 years (instead of 30). Otherwise same as current law.	If there is a funding shortfall (i.e., the value of plan assets (reduced by any credit balance) is less than the funding target) for a year, the plan must amortize the shortfall in 7 level annual payments. The shortfall amortization base for all preceding plan years is reduced to zero if the plan's funding shortfall for a plan year is zero. (If the plan sponsor elects to use a credit balance to reduce its minimum required contribution for the plan year, it must reduce the value of the plan's assets by the credit balance in order to calculate the funding shortfall for this purpose.)
Credit Balances	Plan sponsors may not use credit balances to offset any minimum required contribution for the current	Plan sponsors can use credit balances to offset minimum required contributions for the current year, but credit balances	Plan sponsors can use credit balances to offset minimum required contributions for the current year only if the ratio of

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	year.	adjusted annually for investment performance.	the value of the plan's assets for the preceding year (reduced by any credit balance) to the plan's funding target for the preceding year is at least 80%. Credit balances must be adjusted annually to reflect the rate of net gain or loss experienced by all plan assets during the preceding year.. Plan asset values are <u>reduced</u> by credit balances for several purposes, including determining a plan sponsor's minimum required contribution and a plan's funding target attainment percentage, which is used to determine a plan's funding target and whether certain restrictions on benefit increases, future accruals, or lump sum distributions apply. See *Calculation of Liability* and *Minimum Contribution*, above, and *Special Rules for Underfunded Plans* and *Lump Sum Distributions*, below. However, a plan sponsor can elect to reduce its plan's credit balance *before* determining the value of plan assets or using the credit balance to offset part of the minimum required contribution for a plan year.
Timing of Contributions	Plans must make quarterly funding contributions if assets are less than the applicable funding target. All plans must make final contribution no later	Same as current law.	Plans must make quarterly funding contributions if they had a funding shortfall for the preceding plan year. All plans must make final contribution

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<tr><th></th><th>ADMINISTRATION PROPOSAL</th><th>ERIC PROPOSAL</th><th>H.R. 2830</th></tr>
<tr><td></td><td>than 8.5 months after the close of the plan year.</td><td></td><td>no later than 8.5 months after the close of the plan year.</td></tr>
<tr><td>Special Rules for Underfunded Plans</td><td>• Limits on benefit increases:
○ If market value of plan assets is 80% (or less) of funding target, no benefit increases unless plan sponsor makes minimum required contribution plus additional contribution equal to the increase in the funding target attributable to the benefit increase.
○ If market value of assets is more than 80% of funding target, but was less than 100% for the prior year, no benefit increases that would cause asset value to fall below 80% of funding target unless plan sponsor makes minimum required contribution plus enough to return asset value to at least 80% of funding target.
○ If market value of assets is at least 100% of funding target for the prior year, no limit on benefit increases.
• Mandatory freeze on benefit accruals if plan sponsor is financially weak and plan is severely underfunded or if plan sponsor is in bankruptcy and assets are less than funding target
• No funding of nonqualified deferred compensation for executives if plan sponsor is financially weak and plan</td><td>• No benefit increases if plan is less than 70% funded and has been less than 100% funded for more than a year.</td><td>• Limits on benefit increases:
○ If funding target attainment percentage is less than 80%, no benefit increases unless plan sponsor makes minimum required contribution plus additional contribution equal to the increase in the funding target attributable to the benefit increase.
○ If funding target attainment percentage is 80% (or greater), no benefit increases that would cause the funding target attainment percentage to fall below 80% unless plan sponsor makes minimum required contribution plus enough to return funding target attainment percentage to 80%.
• Mandatory freeze on future benefit accruals if funding target attainment percentage is less than 60%.

(The funding target attainment percentage is the ratio of a plan's asset values (reduced by any credit balances) to its funding target for purposes of these restrictions. However, if a plan's funding target attainment percentage would be at least 100% if its asset values were not reduced by any credit</td></tr>
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	is severely underfunded, or 6 months before or after an underfunded plan terminates		balances, the plan is not subject to these limitations.) • Executives subject to tax immediately on amounts set aside to fund their nonqualified deferred compensation plans if company's defined benefit plan is "at risk." See *Calculation of Liability*, above.
Lump Sum Distributions	• Use corporate bond yield curve to calculate lump sum distribution amount. • No lump sums or other accelerated benefit forms if market value of plan assets is 60 percent or less of funding target (i.e., the plan is "severely underfunded"), or if plan sponsor is financially weak and market value of plan assets is 80% or less of funding target.	• Use composite corporate bond rate to calculate lump sum distribution amount. • For restrictions on paying lump sums when plan sponsor is in bankruptcy, see *Bankruptcy Protections for PBGC*, below.	• Use segmented corporate bond yield curve to calculate lump sum distribution amount, but interest rate based on current yields rather than 3-year weighted average of yields. (The corporate bond yield curve is phased in over a 5-year period for this purpose.) • No lump sums or other accelerated benefit forms if funding target attainment percentage is less than 80%. Plan must notify participants and beneficiaries within 30 days of becoming subject to this restriction. (The funding target attainment percentage is the ratio of a plan's asset values (reduced by any credit balances) to its funding target for purposes of this restriction. However, if a plan's funding target attainment percentage would be at least 100% if its asset values were not reduced by any credit balances, the plan is not

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			subject to this restriction.)
Permitted Additional Funding			
Maximum Deductible Contribution	Maximum deductible contribution = excess of (funding target + applicable normal cost + specified cushion) over market value of plan assets. The specified cushion is 30% of the plan's funding target, adjusted for anticipated future salary increases.	• Maximum deductible contribution = 130% of current liability plus future salary and benefit increases. • Repeal the combined plan limit for PBGC-insured plans. • Eliminate the 10% excise tax on nondeductible contributions.	• Maximum deductible contribution for at-risk plan = (150% of applicable funding target + target normal cost) over value of plan assets. • Maximum deductible contribution for all other plans = (funding target if plan were at-risk + target normal cost if plan were at-risk) over value of plan assets. • Combined plan limit does not apply unless employer contributions to defined contribution plans exceed 6% of compensation.
Excess Assets	No proposal.	Allow plan sponsors to use excess pension assets to fund 401(k) plan accounts on behalf of pension plan participants.	No proposal.
Pension Benefit Guaranty Corporation			
Fixed-Rate Premium	Increase to $30 per participant and update annually using the Social Security Administration's Average Wage Index.	Same as current law.	Same as Administration's proposal, but phase in the $30 per participant rate over 3 years for plans with funding target attainment percentages of less than 80 percent, and over 5 years for all other plans. (Plan asset values are reduced by any credit balances for purposes of calculating the funding target attainment percentage. See *Calculation of Liability*, above.)
Variable-Rate Premium	Replace variable-rate premium with risk-based premium that applies to all	Same as current law.	Replace variable-rate premium with risk-based premium. The risk-based

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	plans with assets less than their funding targets. Allow PBGC Board to adjust risk-based premium rate.		premium applies to all plans with funding shortfalls, which for this purpose is the excess of the present value of vested benefits over the fair market value of the plan's assets (reduced by any credit balance). The segmented corporate bond yield curve is used to calculate the present value of vested benefits, but interest rate based on current yields rather than the 3-year weighted average of yields.
Bankruptcy Protections for PBGC	• Freeze PBGC guarantee when plan sponsor enters bankruptcy, and continue freeze for two years after plan sponsor leaves bankruptcy. • Permit PBGC to create and perfect liens against plan sponsors and controlled group members for missed pension contributions.	• Freeze PBGC guarantee when plan sponsor enters bankruptcy. • Lump sums limited to plan's funded status (e.g., if plan is 80% funded, eligible individuals could receive 80% of their benefit in the form of a lump sum). • Shutdown benefits limited to plan's funded status.	Permit PBGC to perfect and enforce liens against plan sponsors and controlled group members for missed pension contributions, but only if plan's funding target attainment percentage is less than 100% and if the unpaid balance is more than $1 million.
Shutdown Benefits	Prohibit shutdown benefits. Plan sponsors must amend plans to prospectively eliminate existing shutdown benefits. PBGC guarantee does not apply to shutdown benefits.	Treat shutdown benefits as a plan amendment for both funding and PBGC guarantee purposes.	Prohibit shutdown benefits.
Disclosure			
Section 4010 Notice	All information filed with PBGC under ERISA § 4010 (except for confidential "trade secrets and commercial or financial information") subject to FOIA disclosure.	No proposal.	• Plan sponsor must file an ERISA § 4010 notice with PBGC if its plans' aggregate funding target attainment percentage is less than 60%, or if its plans' aggregate funding target attainment percentage is less than 75%

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			and the PBGC determines there is substantial unemployment or underemployment and the sales and profits are depressed or declining in the plan sponsor's industry. • Plan sponsor must notify participants and beneficiaries, as well as the House Committee on Education and the Workforce and the Senate Committee on Health, Education, Labor, and Pensions, within 90 days of filing an ERISA § 4010 notice with PBGC. This notice also must include information about the plan sponsor's other single-employer plans that are in at-risk status.
Form 5500	• All plans must disclose ongoing and at-risk liability in Form 5500, even if plan sponsor is not financially weak. • Schedule B must show the market value of the plan's assets, its ongoing liability and its at-risk liability. • Accelerate Schedule B due date for plans with more than 100 participants subject to the quarterly contribution requirement (see *Timing of Contributions*, above) to 2.5 months following the close of the plan year. File amended Schedule B showing later contributions with Form 5500.	No proposal.	• All defined benefit plans must include ratio of active participants to inactive participants on Form 5500. • Form 5500 for a new plan resulting from the merger of two or more plans must disclose the funded ratio for each pre-merger plan for the preceding year and the funded ratio for the new combined plan for the Form 5500 filing year. • Schedule B must include a statement explaining the actuarial assumptions and methods used in projecting future retirements and forms of benefit distributions under the plan.

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			• Secretary of Labor may extend Form 5500 due date beyond 275 days after the end of the plan year only on a case by case basis and only in cases of hardship. • Plans must file identification, basic plan information, and actuarial information included in Form 5500 in electronic format. The Secretary of Labor must make this information available on a Web site within 90 days of the Form 5500 filing, and the plan sponsor must display the information on its Web site.
Summary Annual Report	Accelerate deadline for furnishing SAR to participants and beneficiaries to 15 days after filing the Form 5500. The SAR disclosure replaces the ERISA § 4011 participant notice requirement.	Replace SAR with annual statement of the plan's funded status based on timely information currently available – such as information on plans compiled for SFAS 87 disclosure.	• SAR must be written in a manner calculated to be understood by the average plan participant, and must include the plan's assets and liabilities as reported on the three most recent Form 5500 filings. • Accelerate deadline for furnishing SAR to participants and beneficiaries to 15 business days after the Form 5500 filing deadline.
Annual Funding Notice	No proposal.	No proposal.	Require plans to furnish a funding notice to all participants and beneficiaries, their labor representatives, and the PBGC no more than 90 days after each plan year ends. The notice must include the ratio of inactive participants to active participants, the ratio of the plan's assets to projected

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			liabilities, a statement of the plan's funding policy and asset allocation, and a summary of the rules for plan terminations. (This is a modified version of the annual funding notice that multiemployer plans are required to provide under current law.)
Hybrid Plans			
Age Discrimination Rules	Clarify prospectively only that cash balance plans are not age discriminatory if pay credits for older participants are at least as great as pay credits for younger participants. Provide similar rules for other hybrid plans.	Clarify retroactively and prospectively that cash balance, pension equity, and other plans that recognize the time value of money are not age discriminatory.	Clarify prospectively only that defined benefit plans – including hybrid plans – are not age discriminatory as long an older participant's accrued benefit at any date, as determined under the plan's formula (disregarding any subsidized early retirement benefit), would be equal to or greater than the accrued benefit of any similarly situated younger participant. (A similarly situated younger participant is someone who is identical to the older participant in every respect (including period of service, compensation, position, date of hire, and work history, et al.) except age.) Also clarify that cash balance plans are not age discriminatory under this standard solely because interest credits are included in the accrued benefit.
Conversions	• Participants affected by cash balance conversions must receive benefits at least as valuable as they would have received under the traditional formula for each of the first five years	Conversions from traditional to hybrid plan formulas comply with the age discrimination standards if: • neither the old benefit nor the new benefit formula discriminate, on its	No proposal.

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	following the conversion. • No wear away of normal or early retirement benefits for any participant at any time.	face, on the basis of age; and • the conversion does not violate the anti-cutback rule as in effect on the date of the conversion.	
Whipsaw	Eliminate whipsaw prospectively by permitting cash balance plans to define participants' accrued benefits as their account balances as lump sums so long as the plans' interest credit rates are not greater than a market rate of return.	Eliminate whipsaw retroactively and prospectively.	Eliminate whipsaw prospectively by permitting cash balance and other hybrid plans to define participants' accrued benefits as their account balances so long as the plans' interest credit rates are not greater than a market rate of return.
Anti-Backloading Rules	No proposal.	• Amend anti-backloading rules, retroactively and prospectively, to provide that a plan providing participants with a benefit produced by two or more alternative formulas will comply with the anti-backloading rules if each formula, tested separately, complies with those rules. • Clarify retroactively and prospectively that if a plan provides for an offset for benefits provided by another plan, the plan will comply with the anti-backloading rules if the gross benefit formula (i.e., before application of the offset) complies with the anti-backloading rules.	No proposal.
Nondiscrimination Rules	No proposal.	Direct the Treasury Department not to revisit the nondiscrimination testing issue raised by proposed IRC § 401(a)(4) regulations that Treasury has withdrawn.	No proposal.
Determination	No proposal.	Direct the Treasury Department to begin	No proposal.

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Letters		issuing, by a date certain, determination letters to plans that have been converted from traditional to hybrid formulas.	
Investment Advice			
Prohibited Transaction Exemption	No proposal.	No proposal.	Create a prohibited transaction exemption so 401(k) plan fiduciaries can hire their plans' investment providers to offer investment advice services to individual participants and beneficiaries.
Special Fiduciary Rules	No proposal.	No proposal.	Plan sponsor does not breach fiduciary duties by arranging for fiduciary adviser to provide investment advice if the arrangement satisfies the requirements for the prohibited transaction exemption. Plan sponsor must fulfill fiduciary duties with respect to selecting and monitoring the fiduciary adviser, but no duty to monitor specific advice being provided to particular participants.
Multiemployer Plans			
Funding	No proposal.	No proposal.	• Accelerate amortization schedule for plan benefit amendments to 15 years (from 30 years). • Increase the maximum deductible limit to 140 percent of current liability.
Special Rules for Underfunded Plans	No proposal.	No proposal.	• Require trustees to improve the health of the plan by 1/3 within 10 years if plan is less than 80% funded or will hit a funding deficiency within 7 years. • Establish new funding standards,

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			possible benefit restrictions, and new notice requirements for plans that are funded at less than 65%. • Contributing employers must pay a 5% surcharge for the first year a plan is in critical status, and a 10% surcharge for each consecutive year thereafter the plan remains in critical status.
Disclosure	No proposal.	No proposal.	• Form 5500 filings must include the number of contributing employers and the number of employees in the plan that no longer have a contributing employer on their behalf. • Multiemployer plans must make available copies of all actuary reports for a plan year and copies of all financial reports prepared by plan fiduciaries, including plan investment managers and advisors, and/or plan service providers, within 30 days of a request by contributing employers or labor organizations. • Multiemployer plans must notify a contributing employer of its withdrawal liability within 180 days of a written request.
Other Provisions			
Prohibited Transactions	No proposal.	No proposal.	• Authorize the Secretary of Labor to assess a civil penalty against a party in interest participating in a prohibited transaction.

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			• Create a prohibited transaction exemption for block trades, defined as any trade that will be allocated across two or more of a fiduciary's clients • Create a prohibited transaction exemption for transactions between a plan and a fiduciary or other party in interest if executed through a regulated exchange, electronic communications network, alternative trading system, or similar execution system or trading venue. • Create a prohibited transaction exemption for foreign exchange transactions between a bank or broker-dealer and a plan. • Create a prohibited transaction exemption for certain transactions corrected within a 14-day correction period.
Bonding			Provide an exemption from ERISA's bonding requirements for registered brokers or dealers.
Studies	No proposal.	No proposal.	Require the Government Accountability Office (GAO) to prepare a pension funding report that includes an analysis of the feasibility, advantages, and disadvantages of requiring pension plans to insure a portion of their total investments, and requiring pension plans to adhere to uniform solvency standards set by the PBGC.