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## **KENNEDY, ENZI, BAUCUS AND GRASSLEY AGREE ON PENSIONS BILL**

WASHINGTON – The leaders of the two Senate committees with jurisdiction over pension issues today reached an agreement on a pension funding and reform bill, clearing the way for Senate consideration. Sen. Chuck Grassley, chairman of the Committee on Finance, Sen. Max Baucus, ranking member, Sen. Mike Enzi, chairman of the Committee on Health, Education, Labor and Pensions, and Sen. Edward Kennedy, ranking member, met and reached an agreement on the differences between their respective committee-passed pension bills.

Grassley said, “The poor state of our nation’s pension plans is on a lot of Americans’ minds. Not long ago, workers used to be pretty sure of a good pension plan. That’s not the case anymore. There are a lot of reasons for that, some within Congress’ control and some not in our control. We need to fix the problems within our control. Today we’ve moved a step closer to a more secure pension system. Our consensus bill protects workers and taxpayers without overburdening companies. The Senate should pass it as soon as possible. Passage seems likely now that we have a bipartisan consensus from the two committees of jurisdiction.”

Baucus said, “We need to protect Americans who work all their lives and rely on pensions to provide a comfortable retirement. With recent airline bankruptcies, and corporate scandals devastating retirement security, we urgently need pension reform. The legislation that we have developed will help to secure retirement benefits that Americans have worked hard to earn.”

Enzi said, “Hard-working Americans who spend a lifetime earning their pensions deserve to reap the benefits they are promised in retirement. Our Committees have worked together to ensure that dreams for retirement can be a reality for millions – even in today’s fast-changing global marketplace. This compromise strikes a reasonable and practical balance between the financial needs of retirees and the financial resources of the employers funding their pension plans. It represents an all around victory for employees -- young and old, and employers -- large and small.”

Kennedy said, “Too many hardworking Americans lie awake at night worried about their retirement and whether or not it will be there when they need it. And now the devastation of Hurricane Katrina has torn apart the job security that millions had depended on. Now more than ever, workers deserve the support of Congress to preserve their hard-earned pensions. This bipartisan legislation will do just that and I am proud that we have reached an agreement that is now ready for full Senate consideration.”

The outline of their agreement follows.

## **Pension Security and Transparency Act**

### **1. Single-Employer Plan Funding Rules:**

**1 Interest rate:** Plans will determine interest rates based on a 3-segment yield curve, using a 12-month unweighted average of investment-grade corporate bonds. The yield curve will be phased in over 3 years starting in 2007. The corporate rate will apply for 2006.

**2 Assets:** Plans will determine assets on a market basis or on a 12-month unweighted average starting in 2007.

**3 Mortality:** Generally, plans will be required to use the RP2000 mortality table, which will be revised every 10 years. Plans may petition the IRS to use plan-specific mortality pursuant to certain restrictions and demonstrations.

**4 Target Funding:** Plans will determine underfunding based on a 100% funding target. Starting in 2007, the 100% will be phased in over 3 years (5 years for small plans).

**5 Amortization:** Plans will have to amortize any underfunding over 7 years.

**6 At-Risk Target Liability:** Plans of sponsors that have non-investment grade bond ratings and 2 years of declining bond ratings starting after 2007 will have to fund towards at-risk target liability in the third year that the sponsor has non-investment grade bond ratings. At-risk is phased in at 20% per year, not including any year in which ratings have not declined. In determining at-risk liability, plans consider only benefits that could be satisfied in the next 7 years. There is no at-risk liability for any plan that is 93% funded on a non-at-risk basis.

**7 Credit Balance:** Employers will be able to use existing credit balances; however, if the plan is less than 80% funded, the employer will have to contribute cash equal to the greater of 25% of the minimum required contribution or the plan's normal cost.

**8 Benefit Limitations – Increases:** Plans will not be permitted to increase benefits when the sponsor is in bankruptcy. No benefit increases will be permitted, with certain limited exceptions, if the plan is less than 80% funded.

**9 Benefit Limitations – Lump Sums:** Plans will be limited in the amount of lump sums and similar forms they can pay if (a) the sponsor is bankrupt and the plan is less than 100% funded, or (b) the plan is less than 60% funded. Payments will be limited to 50% of the amount otherwise payable, not to exceed the present value of the participant's maximum eligible guarantee from the PBGC.

**10 Benefit Limitations – Accruals:** Plans must freeze accruals if the funding is less than 60%.

**11 Benefit Limitations – Executive Compensation:** Sponsors of plans (a) whose sponsors are bankrupt, (b) whose funding is less than 80% (if the sponsor is non-investment grade rated) or 60% (in other cases), or (c) which are terminated underfunded may not fund nonqualified executive compensation arrangements.

**12 Benefit Limitations – PBGC Guarantee:** For purposes of the PBGC guarantees and determining asset allocation priorities, the date of a bankruptcy filing will be treated as the plan termination date.

**13 Calculation of Lump Sums:** Plans will calculate individual lump sums and

similar forms based on a yield curve based on the average value of high-grade corporate securities over 3 months. The new methodology will be phased in over 4 years starting in 2007.

14 **PBGC Premiums:** Flat-rate premiums will be increased to \$30, and the full-funding limit exemption is eliminated.

15 **Multiple Employer Plans:** Certain multiple employer plans will be allowed to continue to operate under the current rules for 10 years.

16 **Airlines:** Airlines will have a special 14-year funding regime before the new rules apply.

17 **Funding Workout Program:** The IRS, in consultation with PBGC, will be able to workout alternative amortization schedules and other requirements for troubled plans.

2 **Disclosure:** The bill expands the information required to be reported under the annual report for single and multiemployer plans, expands the requirement for multiemployer plan and single employer funding notices and makes them due 90 days after the end of a plan year. The threshold for reporting to the PBGC is changed to take into consideration the funding percentages of the employers' plans and the employers' credit rating.

3 **Multiemployer Plans:** Multiemployer plans will have to develop improvement plans and rehabilitation plans if they fall into the tests for "endangered" or "critical" zones, respectively.

The plans actuary will have to certify both to the plans funding status with respect to the zones and annually whether the improvement or rehabilitation plan is making the necessary process to removing the multiemployer plan from the endangered or critical zone.

4 **Hybrid Plans:** The agreement adopts the prospective provisions that were in both bills.

5 **Other Provisions:** The provisions of Titles I (Diversification), II (Information, other than section 202), VI (PBGC), VII (Spousal, other than section 701), VIII (Portability), IX (Administrative), X (other than tax court administrative provisions) and XI of S. 219 (NESTEG) are included.

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