AMERICAN BENEFITS COUNCIL

SUMMARY AND COMPARISON OF PROPOSALS TO REPLACE THE OBSOLETE 30-YEAR TREASURY BOND RATE FOR PENSION CALCULATION PURPOSES[1]

Item	Current Law	Portman-Cardin Bill (H.R. 1776), as Introduced	Portman-Cardin Bill (H.R. 1776), as Reported by the Ways & Means Committee	Gregg (Senate HELP Committee Chairman) Bill (S. 1550)	Bush Administration Proposal
Plan Funding	Defined benefit pension plans are subject to minimum funding requirements. All such plans are required to maintain a "funding standard account," to which contributions must be made based on an acceptable actuarial cost method. In addition, certain plans with assets less than 90 percent of the plan's current liabilities are required to make additional "deficit reduction" contributions. For purposes of determining a plan's current liability for these deficit reduction contributions, plans generally are required to use a range (i.e., a "corridor") of 90 percent to 105 percent of the	Beginning in 2004, the 30-year Treasury Rate would be replaced on a permanent basis by an interest rate based on "amounts conservatively invested in long-term corporate bonds," ("Corporate Bond Rate"). The Treasury Department would be directed to prescribe a method for determining the Corporate Bond Rate based on one or more indices.	Same as Portman-Cardin bill as introduced, except that the changes would apply only for 2004-2006 (after which time the use of the 30-year Treasury Rate would once again be required).	For 2004-2008, the 30-year Treasury Rate would be replaced by the Corporate Bond Rate. The Treasury Department would be directed to prescribe a method for determining the Corporate Bond Rate based on 2 or more indices, provided that such indices are in the top 2 quality levels available reflecting average maturities of 20 or more years. For 2004-2005, the maximum corridor would be 105 percent, and for 2006-2008, the maximum corridor would be reduced to 100 percent. The changes would expire (i.e., sunset) after 2008 (after which time the use of the 30-year Treasury Rate would	Based on materials released to date, the 30-year Treasury Rate would be replaced with a gradual transition from the Corporate Bond Rate to a so-called "yield curve" approach. The "yield curve" would involve a regime under which the interest rates used for measuring pension liability would be tied to the schedule and duration of payments due to each plan's participants. For 2004-2005, pension liabilities would be determined solely by the Corporate Bond Rate. For 2006-2007, a blended combination of the Corporate Bond Rate and the yield curve would be used, with a two-thirds

[1] The 30-year Treasury Bond Rate is required to be used for a variety of pension calculation purposes. Due to a buyback program initiated by the Treasury Department and the subsequent discontinuation of the 30-year Treasury bond, the 30-year Treasury Rate has reached historic lows and no longer correlates with rates on other long-term debt instruments, resulting in an artificial inflation of pension liabilities and required pension contributions. This chart summarizes several proposals that have been advanced to replace the 30-year Treasury Rate for pension calculation purposes. On April 11, Representatives Rob Portman (R-OH) and Ben Cardin (D-MD) introduced the Pension Preservation and Savings Expansion Act of 2003 (H.R. 1776), which included a provision to replace the 30-year Treasury Rate on a permanent basis (section 705). On July 18, the House Ways and Means Committee reported a modified version of H.R. 1776 (including section 203, replacing the 30-year Treasury Rate for a temporary period). On July 31, Senator Judd Gregg (R-NH), chairman of the Senate Health, Education, Labor & Pensions (HELP) Committee, introduced the Pension Stability Act (S. 1550), which also addresses 30-year Treasury Rate replacement for a temporary period. The Bush Administration has advanced a proposal to replace the 30-year Treasury Rate, the summary of which is based on a Treasury Department press release and Congressional testimony by Administration officials.

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	four-year weighted average of the 30-year Treasury Rate. In March 2002, Congress enacted a temporary correction allowing plans to use an expanded corridor of up to 120 percent of the four-year weighted average of the 30-year Treasury Rate for plan years beginning in 2002 and 2003 only.			once again be required).	weighting of the Corporate Bond Rate and a one-third weighting of the yield curve in 2006 and the opposite weighting in 2007. Beginning in 2008, the yield curve alone would be used.
Calculation of Lump-Sum Distributions	A lump-sum distribution payable from a defined benefit plan cannot be less than the present value of the participant's annuity benefit at normal retirement age. The Internal Revenue Code and ERISA require that the annual yield of the 30-year Treasury Rate (for the month prior to the date of distribution) be used in calculating the lump sum present value of such annuity benefit. One effect of the unusually low 30-year Treasury Rate is to inflate lump sums relative to annuities. These inflated lump sums drain assets from plans as participants and beneficiaries elect to forego annuity payments.	For calculating lump sum distributions, the Corporate Bond Rate would replace the 30-year Treasury Rate on a phased-in basis beginning in 2006. During the phase-in period (2006-2009), the applicable interest rate would be the lower of (1) the Corporate Bond Rate or (2) the 30-year Treasury Rate plus a percentage of the excess of the Corporate Bond Rate (20 percent in 2006, 40 percent in 2007, 60 percent in 2008, and 80 percent in 2009) over the 30-year Treasury Rate.	For 2006 only, the 30-year Treasury Rate would be replaced by the lower of (1) the Corporate Bond rate or (2) the 30-year Treasury Rate plus 20 percent of the excess of the Corporate Bond rate over the 30-year Treasury Rate. After 2006, the use of the 30-year Treasury Rate would once again be required.	For 2006-2008 only, the 30-year Treasury Rate would be replaced on a phased-in basis by the Corporate Bond Rate. During the phase-in period (2006-2008), the applicable interest rate would be the lower of (1) the Corporate Bond Rate or (2) the 30-year Treasury Rate plus a percentage of the excess of the Corporate Bond Rate (20 percent in 2006, 40 percent in 2007, 60 percent in 2008) over the 30-year Treasury Rate. After 2008, the use of the 30-year Treasury Rate would once again be required.	Beginning in 2006, the yield curve would be phased-in for the calculation of lump sum distributions, with a two-thirds weighting of the 30-Year Treasury Rate and a one-third weighting of the yield curve in 2006 and the opposite weighting in 2007. Beginning in 2008, the yield curve alone would be used for calculating lump sum distributions.

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Pension Benefit Guaranty Corporation ("PBGC") Variable Rate Premiums	In calculating a plan's funded status for purposes of determining the obligation to pay PBGC variable rate premiums (and the level of such premiums), a specified percentage (generally 85 percent, except 100 percent in 2002 and 2003) of the annual yield of the 30-year Treasury Rate (for the month immediately preceding the beginning of the plan year) is used. The temporary correction enacted in March 2002 (that increased the specified percentage from 85 percent to 100 percent for 2002 and 2003) is scheduled to expire at the end of this year.	The 30-year Treasury Rate would be replaced by the Corporate Bond Rate, for years beginning with 2004.	For 2004-2006 only, the 30-year Treasury Rate would be replaced by the Corporate Bond Rate (after which time the use of the 30-year Treasury Rate would once again be required).	For 2004-2008 only, the 30-year Treasury Rate would be replaced by the Corporate Bond Rate (after which time the use of the 30-year Treasury Rate would once again be required).	It is unclear from Bush Administration materials and comments what changes, if any, would be made to the interest rate used for the determination of PBGC variable rate premium obligations and levels.
Defined Benefit Plan Limitations	The Internal Revenue Code limits the maximum annual annuity benefit that may be paid under a defined benefit plan ($160,000 in 2003). When a participant or beneficiary receives his or her benefit as a lump sum, the maximum annuity benefit must be actuarially adjusted to a lump sum value for purposes of determining whether the anticipated lump sum exceeds the maximum annual benefit limit. The 30-year Treasury Rate is used in making this adjustment.	For purposes of determining maximum benefits under a defined benefit plan, the 30-year Treasury Rate would be replaced by an interest rate of 5.5 percent, beginning in 2004.	For 2004-2006, for purposes of determining maximum benefits under a defined benefit plan, the 30-year Treasury Rate would be replaced by an interest rate of not less than the greater of 5.5 percent or the rate specified in the plan. After 2006, the use of the 30-year Treasury Rate would once again be required.	Same as the Portman-Cardin bill as introduced, except that the changes would expire after 2008 (after which time the use of the 30-year Treasury Rate would once again be required).	From general Administration announcements, it is unclear what changes, if any, would be made to the determination of maximum benefits.

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Other Issues	No provision.	No provision.	No provision.	A 13-member independent Commission would be established to submit a report with recommendations to appropriate Congressional committees by December 31, 2006. The report would be based on reviews of all outstanding issues, including funding and liability rules, the appropriate interest rates, smoothing, yield curve, mortality tables, disclosure, and other transition rules. The Commission would be empowered to hold hearings and take testimony, secure information directly from any Federal department or agency, and receive evidence the Commission considers necessary to carry out its aforementioned duties. The Treasury Department would provide all financial, administrative, and staffing requirements for the Commission. The Commission would terminate 90 days after its report is submitted.	According to the Administration's press release and testimony, the Administration is also exploring additional funding reforms to protect workers' retirement security by improving the funded status of all defined benefit plans. Issues under consideration include the proper establishment of funding targets, plan funding volatility, appropriate assumptions for mortality and retirement age, and incentives for more consistent annual funding requirements. The Administration has also announced proposals regarding enhanced disclosure with respect to pension funding and limitations on benefit improvements and lump sum distributions from financially troubled companies.