AMERICAN BENEFITS COUNCIL

SUMMARY OF THE BOEHNER PENSION REFORM BILL
JUNE 8, 2005

- Single Employer Plan Funding. The bill would replace all of the current funding rules, including the ERISA funding rules and the deficit reduction contribution ("DRC") rules, with a single set of funding rules closely modeled on the current DRC rules. The primary differences are that plans would be required (i) to fund to a target of 100% of current liability; (ii) the shortfall between current liability and assets would be amortized over 7 years; and (iii) current liability would be measured using a modified yield curve interest rate and a more restrictive asset smoothing rule.

- Modified Yield Curve Interest Rate. The single-employer funding provisions of the bill would use a modified corporate bond yield curve to value pension liabilities. Under the modified yield curve, there would be three buckets of interest rates based on a true yield curve developed by Treasury. The three buckets would be for (i) durations under 5 years; (ii) durations between 5 and 20 years; and (iii) durations in excess of 20 years. The new interest rate (and many other provisions in the bill) would be phased-in. Summary says that corporate bond yield curve will be based on several bond indexes – we believe that this will include A, AA, and AAA rated bonds (Administration only included top two bond ratings).

- Interest Rate Smoothing. The yield curve interest rate would be smoothed over 3 years (50% for the most recent year; 35% for the second year; and 15% for the third year).

- Assets. Actuarial valuations of assets would be permitted, but only up to a maximum of 110% of fair market value (down from 120% today). In addition, other restrictions on the actuarial valuation methodology are contemplated.

- Credit Ratings. No credit-rating provisions are included in the bill, but plans that are below 60% funded on a current liability basis would have to measure liabilities assuming that participants retire at the earliest retirement age and elect the most valuable form of distribution.

- Credit Balances. The current credit balance rules would be preserved, but plans that are below 80% funded would not be able to use credit balances.

- Lump Sums. The amount of lump-sum payments would be valued using the yield curve used to value pension liabilities.

- Deductions. The deduction limit would be increased to 150% of current liability (measured as described above).

- Benefit Restrictions. The bill would limit benefit increases for plans funded below stated thresholds.

- Executive Compensation Restrictions. The bill would restrict funding for nonqualified deferred compensation plans provided by a sponsor with a severely underfunded plan.

- PBGC Premiums. Flat rate premiums would be increased to $30 per participant; variable rate premiums would stay at $9 per thousand of underfunding but would be based on the new definition of liability. There would no longer be exceptions to the variable rate premium, i.e., the VRP would be payable on the first dollar of underfunding and the full funding limit exemption would be repealed.

- Cash Balance and Other Hybrid Plans. The summary provided by Rep. Boehner's office indicates that the bill will include a hybrid plan title, but will not include any provisions. Mr. Boehner said today that he has not been able to reach agreement with the Chairman Thomas of the Ways and Means Committee on how to deal with hybrid plan relief. Apparently, Mr. Thomas is inclined to adopt the Administration's proposals on hybrid plans. Mr. Boehner is continuing to work to find a solution and hopes to add provisions later in the committee process.

- Disclosure. The bill would make a number of changes to current law disclosure requirements. PBGC 4010 information (other than sensitive corporate information) would be available to the public. (It is not clear whether this would be current law 4010 information, which is now calculated on a termination liability basis, or the new current liability based information). In addition, within 90 days of the close of the plan year, participants would have to be notified of the plan's funding percentage (calculated as described above).

- Multiemployer Plan Funding. The bill includes extensive multiemployer plan funding reforms.

- Investment Advice. The bill includes the investment advice changes that Mr. Boehner has previously introduced.