

Issue	Current Law	Pension Security & Transparency Act of 2005
<b><u>Valuations</u></b>		
<b>Asset Valuation</b>	Plans allowed to use fair market value or <b>actuarial value</b> which averages the prices of stocks and bonds over a period of up to five years, so long as within a corridor of 80% to 120% of fair market value.	Plans allowed to use fair market value or actuarial value of assets averaged over 12 months.
<b>Liability Valuation</b>		
<b>a) Interest Rate Benchmark</b>	<b>Composite Corporate Rate</b> , but reverting to 30-year Treasury rate after 12/31/05.	<b>Composite Corporate Rate</b>
<b>b) Number of Rates – Yield Curve</b>	A single interest rate for valuing short, medium, and long-term liabilities.	<b>Modified Yield Curve:</b> Apply three duration-matched interest rates to short, medium, and long-term payments out of the fund.
<b>c) Smoothing</b>	Four-year Weighted Average	12 month unweighted average
<b>d) Mortality Tables</b>	Commissioner’s Standard Table: Currently relying on 1983 mortality table, which will be updated administratively in the near future.	Requires usage of new mortality table (RP2000) after phase-in period. Revised every 10 years. Includes a provision allowing large plans to petition IRS to use own mortality experience.
<b><u>Funding Rules</u></b>		
<b>Full Funding Level</b>	Plans considered fully funded and Deficit Reduction Contribution (DRC) not owed if funded at <b>90%</b> of current liability, or funded at 90% or greater in 2 of the prior 3 years.	Full funding target set at 100%, phased in over 3 years for large plans and 5 years for small plans, after a 1-year grace period (2006).
<b>“At-Risk” Liability</b>	Termination liability, calculated by the PBGC at time of plan termination reflecting the cost of freezing the plan and buying annuities for all participants. Plans that are required to file §4010 disclosures (\$50 million underfunded; received a deficiency waiver or extension of amortization) must disclose liabilities on a termination basis to the PBGC. Disclosures treated as confidential.	Termination liability essentially redesignated “at-risk target liability,” representing the funding target of plans sponsored by companies in junk-bond status (see below). Rules would require that the plan assume worst case scenario for the next 7 years, i.e., that all participants who can will retire at the earliest eligibility within the next 7 years and take lump sum distributions (LSDs). Once at-risk status is triggered, higher target level phased in over 5 years.

Issue	Current Law	Pension Security & Transparency Act of 2005
<b>Credit Rating</b>	Not used in current law.	Plans funded below 93% sponsored by companies in junk bond status for 3 consecutive years (but only after company's credit rating downgraded in two successive years) are required to fund up to its "at-risk" target liability. Special rule delays trigger or funding phase in where company receives an improved credit rating (but still in junk status).
<b>Amortization</b>	Multiple amortization schedules running from 5 to 30 years.	Seven-year amortization for all amounts.
<b>Credit Balance</b>	Sponsors that pay into the plan more than the minimum contribution can apply all or some of a credit balance to reduce required contributions in a later year. Permitted to assume a specified rate of return on the credit balance assets regardless of actual performance.	Permits credit balances, but mark the credit amount to market performance of the assets in the plan. To avoid "funding holidays" at underfunded plans while still encouraging payments above the minimum levels, requires plans funded at less than 80% to contribute the greater of normal cost or 25% of the minimum required contribution before tapping into their credit balances for the year.
<b>Lump Sum Distribution Interest Rate</b>	Present value calculated using an interest rate based on the 30-year Treasury bond rate.	Interest rate determined based on full yield curve of corporate bonds, phased in over 5 years (no change in 2006, 4 year phase in).
<b>Maximum Deductible Amount</b>	Where actuarial value of assets equals or exceeds current liability and normal costs for the year. Contributions that exceed the 100% limit can not be deducted and are subject to an excise tax.	Permit contributions up to 180% of liability.
<b><u>Plan Limitations</u></b>		
<b>Benefit Improvements</b>	<b>Bankruptcy:</b> Plans of companies in bankruptcy may not increase benefits. <b>60% Rule:</b> No benefit improvements in plans less than 60% funded without security provided to the plan. <b>Waiver/Extension:</b> Benefits may not be increased during IRS-approved funding	<b>Bankruptcy:</b> current law. <b>80% Rule:</b> No amendment increasing benefits permitted unless paid for up front. Exceptions for "flat-dollar" plans that would be permitted to rise at the same rate as wages. No exception for previously negotiated collective bargaining agreements; companies required to fund up to 80% if a benefits

Issue	Current Law	Pension Security & Transparency Act of 2005
	waiver or extension of amortization period. Increases deemed <i>de minimis</i> exempted.	increase is agreed to in the contract.
<b>Lump Sum Distributions (LSD)</b>	Prohibited if the fund's assets are less than 3 times the most recent year's disbursements ( <b>Liquidity Shortfall</b> ).	<b>60% Rule:</b> Full payment prohibited at plans at funding ratio of 60%. Permitted to pay lesser of half a lump sum or present value of PBGC guarantee. <b>*NOTE*:</b> Plans that fall below 60% subject to a new excise tax, penalties and PBGC liens.
<b>Future Accruals</b>	No legal limitations based on funding status.	<b>60% Rule:</b> Accruals prohibited at plans below 60%. Companies with collective bargaining agreements required to fund up. No specific rule for plans in bankruptcy.
<b>Executive Compensation</b>	No legal limitations in ERISA or elsewhere based on funding status of company plans.	Restrictions on executive compensation apply to plans funded at 80% at companies in junk-bond status, and to plans funded at 60% at companies rated at investment grade.
<b>PBGC</b>		
<b>Flat-Rate Premium</b>	\$19 per participant paid by all plans	\$30 per participant, not indexed.
<b>Variable-Rate or At-Risk Premium</b>	<b>Variable-Rate Premium (VRP):</b> \$9 per \$1000 of underfunding, paid by plans that fall below the full funding exemption. (See immediately below.)	<b>Modified At-Risk Premium:</b> Current law on VRP law with elimination of full funding exemption. Premium would be assessed against all funding levels below 100 percent.
<b>Full Funding Exemption</b>	VRP not owed if plan funded at <b>90 percent</b> , or funded at 90 percent or greater in two of the prior three years. All plans below 80 percent funded required to pay VRP.	100 percent
<b>Premium Rate Setting Authority</b>	Congressional Authority	Retains Current law and imposes recurring obligation (5 years) on PBGC board to recommend premium increases.

Issue	Current Law	Pension Security & Transparency Act of 2005
<b>Freeze PBGC Guarantee in Bankruptcy</b>	The amount of participant's benefit guaranteed by the PBGC (to a maximum of \$45,614/year) is frozen as of the filing of plan termination proceedings, which can come, if at all, months or years after a bankruptcy filing. PBGC's guaranteed benefit increases each year based on wage inflation.	PBGC guarantee frozen as of the date a company files for bankruptcy protection.
<b>Shutdown Benefits</b>	Early retirement benefits that are triggered by the shutdown of a plant permitted under ERISA, but are not pre-funded. In most cases shutdown benefits are covered by PBGC.	Shutdown benefits would be permitted, but treated like a plan amendment that is not immediately guaranteed by the PBGC.
<b><u>Disclosures</u></b>		
<b>Actuarial Information and Due Date</b>	Assets and liabilities currently reported on Schedule B of the 5500 Form. Typically filed by Oct. 15 for the preceding year.	New disclosures in Form 5500 to include explanation of actuarial assumptions. Extensive new reporting requirements for multiemployer plans to disclose true financial status of plan.
<b>New 90-Day Notice</b>	No provision	<b>90-Day Notice:</b> Within 90 days after plan year, disclose to participants, etc., on-going liability and funding ratio. Adds requirement to inform participants of the current liability of the plan for the current and prior 2 years.
<b>Summary Annual Report (SAR)</b>	Summary Annual Report provided each year to participants providing basic financial information about the plan, and if below 70% funded, a disclosure of the current value of the plan's assets.	No changes to SARs because of extensive information provided in the 90-day notice.
<b>Multiemployer Notice to Employers and Union</b>	No provision	Contributing employers and unions to receive annual notice detailing financial status of plans. Parties also guaranteed right to financial and actuarial data, and estimated withdrawal liability.

Issue	Current Law	Pension Security & Transparency Act of 2005
<b>Disclosures to PBGC §4010</b>	Plans underfunded by \$50 million, in default of current payments, or that has received a funding waiver must file extensive financial information with the PBGC, including funding status on a termination basis. All information treated as confidential and exempt from FOIA.	Changes trigger to \$50 million underfunded <i>and less than 90% funded</i> (new) or sponsored by company in junk-bond status; 60% underfunded; or 75% underfunded and in a declining industry. Plans required to disclose funding status on termination, at-risk, and on-going basis. Special reporting to Congress by PBGC required, as well.
<b><u>Additional Provisions</u></b>		
<b>Investment Advice</b>	Prohibited transactions rules under ERISA prevent service providers in defined contribution plans from offering advice to participants on the investment options in the plan that are managed by the providers.	Includes Bingaman investment advice bill.
<b>Workout Program</b>	No provision	Grants IRS, in consultation with the PBGC, the power to negotiate payment plans (within clear statutory parameters) that keep pension plans at the sponsoring company.
<b>Airlines</b>	Troubled airlines can seek distressed termination of their pension plans and dump liabilities on the PBGC. Termination is the PBGC's only option.	Legacy airlines permitted to amortize unfunded liability over 14 years using their own (higher) interest rate assumptions. Any remaining unfunded liability at the end of the 14 year period would be subject to new 7-year regime.
<b>Hybrid Reform</b>	The legality of hybrid pension plans, such as cash balance and pension equity plans, is in doubt due to one court decision, numerous pending lawsuits, and congressional involvement.	<b>Prospectively</b> clarifies the legality of hybrid plans and repeals the "whipsaw" interpretation, but requires that future conversions provide transition protections, including requiring choice or the banning of "wear away" and requiring grandfathering or "the greater of" for employees age 40 with 15 years of service.

Issue	Current Law	Pension Security & Transparency Act of 2005
<b>Multiemployer Reform</b>	<p>No special funding rules or emergency powers apply until plans fall into funding deficiency status. Once a plan is insolvent, benefits may be cut back.</p>	<p>Adopts special funding rules, known as Red and Yellow Zone provisions, that impose benchmarks, improvement periods, and benefits limitations. Special funding provisions sunset after 8 years.</p> <ul style="list-style-type: none"> <li>• No cutback of employee benefits or automatic employer surcharge.</li> <li>• No revisions of withdrawal liability provisions.</li> <li>• No language overturning court decisions that the plans consider too pro-worker.</li> </ul> <p>Raises maximum deductible limit to 130% of current liability over assets and allows retiree health care transfers for multiemployer plans under IRC §420.</p>