STATUS OF TRUST FUNDS

[In thousands of dollars]

	2002 actual	2003 actual	2004 est.	2005 est.
Assets:				
Cash	679,510	679,650	679,650	679,650
Investments	8,484,020	18,386,780	23,098,740	24,116,140
Receivables:				
Due from Pension Benefit Guaranty Corporation	19,357,400	26,546,750	27,936,150	29,564,070
Due from employers—terminated plans	6,070,120	132,170	168,380	204,940
Assets of pretrusteed plans	324,810	172,920	3,810	90
Other assets	309,340	245,190	165,900	165,900
Total assets	35,225,200	46,163,460	52,052,630	54,730,790
Liabilities:				
Estimate of future benefits—terminated plans	22,614,960	41,930,210	51,702,250	54,380,410
Estimate of probable terminations (net claims for)	12,391,650	3,882,870		
Other liabilities	218,590	350,380	350,380	350,380
Total liabilities	35,225,200	46,163,460	52,052,630	54,730,790

Legislation will be proposed for 2005 which affects 2006 and beyond, to amend the Employee Retirement Income Security Act and the Income Tax Code. The amendments help avoid retirees' benefit reductions and help stabilize the defined-benefit pension system. They:

- Give employers two years of relief from current pension plan contribution requirements—now tied to 30-year Treasury bond interest rates—and base requirements on more appropriate corporate bond rates.
- After the two-year transition period, base pension funding requirements on a "yield curve" (commonly used in corporate finance), which would better tie funding requirements to the timing of the payout of retiree benefits.
- Make additional changes to restrict promises of added benefits by severely underfunded plans and to provide better information on pension finances to workers, retirees, and stockholders.

Additionally, the Administration is developing a plan for comprehensive reform of the pension funding rules to: strengthen funding for workers' defined-benefit pensions; simplify funding rules; offer sponsors new, flexible, approaches to finance their plans without the current yearly volatility; and make additional reforms to ensure PBGC's continued ability to safeguard pension benefits.

CHANGE IN PBGC's LIABILITY UNDER TERMINATED PLANS

[In thousands of dollars]

	2002 actual	2003 actual	2004 est.	2005 est.
Liability, beginning of year	5,627,170	19,357,400	26,546,750	27,936,150
Liability incurred due to plan terminations	9,923,540	5,378,500	1,655,370	2,507,010
(New liabilities assumed)	14,863,250	12,334,200	6,756,400	3,623,840
(Plan assets acquired)	−4,688,490	−6,920,460	−5,013,910	−1,020,240
(Recoveries from employers, net)	−251,220	−35,240	−87,120	−96,590
Operating loss of trust fund	4,779,910	3,731,780	1,462,420	1,587,570
Benefit payments	−973,220	−1,920,930	−1,728,390	−1,780,130
Liability, end of year	19,357,400	26,546,750	27,936,150	30,250,600

Balance Sheet (in millions of dollars)

Identification code 16–4204–0–3–601		2002 actual	2003 actual	2004 est.	2005 est.
	ASSETS:				
	Federal assets:				
1101	Fund balances with Treasury				
	Investments in US securities:				
1102	Treasury securities, par	12,834	12,937		
1102	Treasury securities, unamortized discount (–)/premium (+)	3,739	3,056		
1106	Receivables, net	196	260		
1206	Non-Federal assets: Receivables, net	120	255		
	Net value of assets related to pre–1992 direct loans receivable and acquired defaulted guaranteed loans receivable:				
1601	Direct loans, gross	52	57		
1602	Interest receivable				
1603	Allowance for estimated uncollectible loans and interest (–)	–52	–57		
1699	Value of assets related to direct loans				
	Other Federal assets:				
1801	Cash and other monetary assets	40	135		
1803	Property, plant and equipment, net	4	4		
1901	Other assets				
1999	Total assets	16,933	16,647		
	LIABILITIES:				
	Non-Federal liabilities:				
2201	Accounts payable	279	349		
2206	Pension and other actuarial liabilities	20,132	27,798		
2999	Total liabilities	20,411	28,147		
	NET POSITION:				
3300	Cumulative results of operations	–3,478	–11,500		
3999	Total net position	–3,478	–11,500		
4999	Total liabilities and net position	16,933	16,647		

Note: Consistent with Government-wide practice, information for 2004 and 2005 was not required to be collected.

Object Classification (in millions of dollars)

Identification code 16–4204–0–3–601		2003 actual	2004 est.	2005 est.
	Personnel compensation:			
11.1	Full-time permanent	57	63	64
11.3	Other than full-time permanent	1	2	2
11.5	Other personnel compensation	2	2	2
11.9	Total personnel compensation	60	67	68
12.1	Civilian personnel benefits	14	16	16
21.0	Travel and transportation of persons	1	1	1
23.2	Rental payments to others	15	17	17
23.3	Communications, utilities, and miscellaneous charges	4	5	5
24.0	Printing and reproduction	1	1	1
25.2	Other services	160	156	149
25.3	Other purchases of goods and services from Government accounts	2	2	2
26.0	Supplies and materials	1	1	1
31.0	Equipment	10	6	6
33.0	Investments and loans	5	11	39
42.0	Insurance claims and indemnities	2,273	2,974	3,295
99.0	Reimbursable obligations	2,546	3,257	3,600
99.9	Total new obligations	2,546	3,257	3,600

Personnel Summary

Identification code 16–4204–0–3–601		2003 actual	2004 est.	2005 est.
	Reimbursable:			
2001	Total compensable workyears: Civilian full-time equivalent employment	766	801	801

EMPLOYMENT STANDARDS ADMINISTRATION

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses for the Employment Standards Administration, including reimbursement to State, Federal, and local agencies and their employees for inspection services rendered, [$392,872,000] *$407,236,000*, together with [$2,036,000] *$2,058,000* which may be expended from the Special Fund in accordance with sections 39(c), 44(d) and 44(j) of the Longshore and Harbor Workers' Compensation Act: *Provided,* That $1,250,000 shall be for the development of an alternative system for the electronic submission of reports required to be filed under the Labor-Management Reporting and Disclosure Act of 1959, as amended, and for a computer database of the information for each submission by whatever means, that is indexed and

50 percent would be taxed as long-term gains. The 50 percent exclusion for gain recognized on the sale of certain small business stock under section 1202 and the rollover of gain recognized on the sale of certain small business stock under section 1045 would be repealed. Modifying these three provisions would allow capital gains forms and instructions to be simplified, benefitting all taxpayers with capital gains. These provisions would be effective on the date of enactment.

STRENGTHEN THE EMPLOYER-BASED PENSION SYSTEM

Ensure fair treatment of older workers in cash balance conversions and protect defined benefit plans.—Qualified retirement plans consist of defined benefit plans and defined contribution plans. In recent years, many plan sponsors have adopted cash balance and other "hybrid" plans that combine features of defined benefit and defined contribution plans. A cash balance plan is a defined benefit plan that provides for annual "pay credits" to a participant's "hypothetical account" and "interest credits" on the balance in the hypothetical account. Questions have been raised about whether such plans satisfy the rules relating to age discrimination and the calculation of lump sum distributions. The Administration proposes to (1) ensure fairness for older workers in cash balance conversions, (2) protect the defined benefit system by clarifying the status of cash balance plans, and (3) remove the effective ceiling on interest credits in cash balance plans. All changes would be effective prospectively.

Improve the accuracy of pension liability measures.—Current law requires that employers use discount rates based on the interest rate on 30-year Treasury securities when making certain pension calculations. Use now of the 30-year Treasury bond interest rate artificially inflates pension liabilities and adversely affects employers offering defined benefit pension plans and working families who rely on the safe and secure benefits these plans provide. Effective for plan years beginning after December 31, 2003 and before January 1, 2006, the Administration proposes to replace the use of discount rates based on the interest rate on 30-year Treasury securities with a rate based on a composite of long-term corporate bond rates. Effective for plan years beginning after December 31, 2005, the Administration proposes to phase in the permanent use of a spot yield curve of high-grade corporate bonds to measure the value of pension liabilities and lump sums, with full implementation for plan years beginning after December 31, 2007. The yield curve is more accurate than any single rate because it ties pension-funding requirements to the timing of the payout of pension benefits. Additionally, the Administration proposes changes to restrict promises of added benefits by severely underfunded pension plans and to provide better information on pension finances to workers, retirees, and stockholders.

CLOSE LOOPHOLES AND IMPROVE TAX COMPLIANCE

Combat abusive tax avoidance transactions.—Although the vast majority of taxpayers and practitioners do their best to comply with the law, some actively promote or engage in transactions structured to generate tax benefits never intended by Congress. Such abusive transactions harm the public fisc, erode the public's respect for the tax laws, and consume limited IRS resources. The Administration has proposed a number of regulatory and legislative changes designed to significantly enhance the current enforcement regime and curtail the use of abusive tax avoidance transactions. These proposed changes include (1) the modification of the definition of a reportable transaction, (2) the issuance of a coordinated set of disclosure, registration, and investor list maintenance rules, (3) the imposition of new or increased penalties for the failure to disclose and register reportable transactions and for the failure to report an interest in a foreign financial account, (4) the prevention of "income separation" transactions structured to create immediate tax losses or to convert current ordinary income into deferred capital gain, and (5) the denial of foreign tax credits with respect to any foreign withholding taxes if the underlying property was not held for a specified minimum period of time as well as regulatory authority in order to prevent the inappropriate separation of foreign taxes from the related foreign income in cases where taxes are imposed on any person in respect of income of an entity. A number of administrative proposals already have been carried out by the Treasury Department and the IRS.

Limit related party interest deductions.—Current law (section 163(j) of the Internal Revenue Code) denies U.S. tax deductions for certain interest expenses paid to a related party where (1) the corporation's debt-to-equity ratio exceeds 1.5 to 1.0, and (2) net interest expenses exceed 50 percent of the corporation's adjusted taxable income (computed by adding back net interest expense, depreciation, amortization, depletion, and any net operating loss deduction). If these thresholds are exceeded, no deduction is allowed for interest in excess of the 50-percent limit that is paid to a related party or paid to an unrelated party but guaranteed by a related party, and that is not subject to U.S. tax. Any interest that is disallowed in a given year is carried forward indefinitely and may be deductible in a subsequent taxable year. A three-year carryforward for any excess limitation (the amount by which interest expense for a given year falls short of the 50-percent limit) is also allowed. Because of the opportunities available under current law to reduce inappropriately U.S. tax on income earned on U.S. operations through the use of foreign related-party debt, the Administration proposes to tighten the interest disallowance rules of section 163(j) as follows: (1) The current law 1.5 to 1 debt-to-equity safe harbor would be eliminated; (2) the