



# AMERICAN BENEFITS COUNCIL

October 24, 2008

## THE AMERICAN BENEFITS COUNCIL 10-POINT PLAN TO HELP EMPLOYEES AND RETIREES AND TO STRENGTHEN THE ECONOMY AND THE RETIREMENT SYSTEM

Among the areas most adversely affected by recent economic turmoil has been retirement security – we need to act now to restore retirement security.

- **Expand the Saver's Credit.** Put dollars back in the pockets of middle-income employees as an incentive to replenish their depleted savings by expanding eligibility for the Saver's Credit.
- **Protect retirees from excessive untimely distributions.** Eliminate age 70-1/2 (required minimum) distributions for either 2008 or 2009.
- **Allow penalty-free hardship distributions.** Eliminate the 10% premature distribution penalty for hardship withdrawals taken during 2009.
- **Permit pension plans to smooth out unexpected asset losses.** In the Pension Protection Act, Congress permitted pension plans to recognize unexpected asset gains and losses over 24 months. Treasury misinterpreted Congress' intent and has effectively applied a mark-to-market rule to pension plans, which will cause unmanageable burdens for companies in 2009 (with many plan losses of approximately 20% to 30% in 2008). Congress should clarify that plans can use "smoothing" to recognize unexpected asset gains and losses over 24 months. Also, for valuation dates in 2009 and 2010, the smoothing period should be extended to 36 months.
  - For example, assume a plan has \$100 and the plan expects to earn 7%, but instead it loses 20%. Instead of the plan having \$107.00 as anticipated, it has \$80.00. Smoothing requires the recognition of the loss but allows it to be recognized ratably over 24 months (or 36 months) so that contributions are more predictable and the employer can plan more effectively. Under 24 month in the above example, \$9.00 of the \$27.00 loss would be

recognized in 2009, for a smoothed value of \$98.00. There is less disruption to business and greater job stability when pension contributions are predictable.

- **Permit full asset smoothing.** The Pension Protection Act (PPA) only allowed unexpected gains and losses to be smoothed out to a very limited extent, so that the smoothed value must stay within 10% of fair market value. For 2009 and 2010, smoothing should be permitted without a percentage limitation. This maximizes the value of smoothing and predictability.
- **Transition to the new funding rules.** The “funding target” for all pension plans in 2009 should be allowed to remain at 92% funded (the current 2008 phase-in level), and plans at and below the target should be eligible for transition relief.
- **Permit all new funding elections for 2009 or 2010.** Although funding methods, such as which type of yield curve to use, generally must remain constant absent IRS approval, funding methods should be allowed to be changed for 2009 and 2010 without IRS approval.
- **Extend the amortization of 2008 plan losses.** Losses that arose in 2008 and are recognized in 2009 should be amortized over 10 years. In addition, employers would be encouraged to make contributions to avoid benefit restrictions by giving them credit for those contributions for minimum funding purposes.
- **Enhance financial education.** The Department of Labor should develop a model notice that employers could provide employees and retirees to help them understand more about retirement plans and addressing the current and long-term challenges. The Department of Education should provide education materials consistent with a five-year financial literacy initiative in public schools.
- **Double the start-up credit for small business retirement plans.** Encourage small employers to establish new plans by increasing the current law start-up credit to 75% of the cost of starting a new plan, up to \$2,000, for 2009 and 2010.