PBGC U.S. GOVERNMENT AGENCY

NEWS

Pension Benefit Guaranty Corporation
1200 K Street, N.W.
Washington, D.C. 20005-4126

FOR IMMEDIATE RELEASE

December 1, 1994

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Pension Bill Passage Improves Financial Future of Workers

Secretary of Labor Robert B. Reich said today that nearly 8 million workers and retirees covered by underfunded pension plans can look forward to a more secure retirement with passage of the Retirement Protection Act.

"This is a great day for American workers. Pensions will be better funded and the benefits for which they have worked long and hard will be there when they retire," said Reich, who is Chairman of the Pension Benefit Guaranty Corporation's (PBGC) Board of Directors.

The heart of the reforms is strengthened and accelerated funding for pension plans that are less than 90 percent funded.

"Workers, retirees, business, and taxpayers are winners. Pension promises will be kept and PBGC will remain strong. Businesses with well-funded plans will no longer carry more than their fair share of the insurance cost. We have removed a risk for American taxpayers, but we must always remain vigilant for the future," said Reich.

Over a 15-year period, the funding of large underfunded pensions will improve from the current average of about 60 percent of vested benefits to over 85 percent. The reforms will also put PBGC on a sound financial basis. The agency's deficit, which at the end of FY 1993 was $2.9 billion in its single-employer insurance program, should be eliminated within 10 years.

"These are comprehensive reforms, targeted to the most severely underfunded pension plans," said Reich.

The pension reforms are part of the General Agreement on Tariffs and Trade (GATT) legislation passed by Congress. The reforms:

o Strengthen funding. New rules accelerate pension funding, and specify mortality tables and narrow the range of permissible interest rates for valuing pension liability. Companies have used interest rate and mortality assumptions to significantly reduce required funding.

They also close a major loophole that enabled employers to double count credits in order to minimize pension contributions, and require severely underfunded plans to have enough cash and marketable securities to make three years of benefit payments.

- Increase premiums for plans that pose the greatest risk by phasing out the $53 cap on the additional premium they are required to pay. While accounting for 80 percent of all underfunding, companies with plans at the cap pay only 25 percent of PBGC's total premium revenue.
- Require companies with large underfunded plans to provide PBGC with detailed funding and financial information on an annual basis. Also require privately held companies with large underfunded plans to provide PBGC with advance notice of certain transactions, such as mergers and spinoffs of underfunded plans or valuable subsidiaries, that might jeopardize pension security.
- Keep workers and retirees better informed about their pensions. The reforms require most employers whose pensions are less than 90% funded to provide plan participants information--in easy to understand language--on their plan underfunding and the limits of PBGC's guarantees.

"Strengthening pensions through better funding will strengthen the system as a whole. Workers and companies can now have greater confidence in a stronger pension system and the PBGC," said PBGC Executive Director Martin Slate.

PBGC is a federal corporation created by the Employee Retirement Income Security Act of 1974 to guarantee payment of basic retirement benefits earned by nearly 41 million American workers and retirees participating in private-sector defined benefit plans. PBGC insures about 66,000 pension plans. The agency receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor plans and investment returns.

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PBGC No. 95-10

FACTS

Pension Benefit
Guaranty Corporation
1200 K Street, N.W.
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RETIREMENT PROTECTION ACT OF 1994
-- Summary of Major Reforms --

The Retirement Protection Act of 1994 protects the benefits of American workers and retirees by increasing funding of underfunded pension plans. Our pension system is fundamentally sound, but chronic underfunding of pensions persists in some industries. Underfunding has grown from $27 billion to $71 billion since 1987. Nearly eight million workers and retirees are in underfunded pension plans, and 1.2 million of them are in plans of troubled companies. They are at risk because the Pension Benefit Guaranty Corporation (PBGC) does not cover all benefits. There is also risk to PBGC, which has a $2.9 billion deficit. Reforms in the Retirement Protection Act will improve pension funding in a balanced and affordable way. Large underfunded plans will improve their funding from the current average of about 60% of vested benefits to more than 85% within 15 years and the PBGC deficit should be eliminated within 10 years. The major reforms will:

Strengthen and accelerate funding for underfunded pension plans

- Reinforce the special requirement, known as the Deficit Reduction Contribution (DRC), for funding underfunded pension plans
    - Accelerate funding for most plans that are less than 90% funded, with the fastest funding by plans that are less than 60% funded
    - Eliminate the double counting of credits that weakens funding requirements
    - Constrain the assumptions that may be used to calculate pension contributions by specifying mortality tables and narrowing the range of interest rates
- Require severely underfunded plans to have enough cash and marketable securities to make current benefit payments
- Limit required annual increases in contributions for the first seven years through transition rules
- Grant excise tax relief to employers with both a defined benefit and defined contribution plan and repeal the quarterly contribution requirement for fully funded plans
- Require companies with large underfunded plans to provide PBGC with current funding and financial information on an annual basis, and require privately held companies with large underfunded plans to provide PBGC with advance notice of transactions that might jeopardize pensions

Increase premiums for pension plans that pose the greatest risk

- PBGC's annual insurance premium includes a flat-rate charge of $19 per participant that all insured plans pay and a variable-rate charge paid only by underfunded plans. Currently the variable-rate premium is capped at $53 per participant. The variable-rate cap will be phased out over three years as an incentive to properly fund pension plans. The flat-rate charge is not changed

Improve information for workers and retirees in underfunded plans and protections in fully funded plans

- Require most employers whose plans are less than 90% funded to provide a notice to participants, in simple language, on the plan's funding and the limits of PBGC's guarantees
- Establish PBGC as a clearinghouse for the benefits of "missing participants" in terminated fully funded plans

NEWS

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December 1, 1994

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- o Increase premiums for plans that pose the greatest risk by phasing out the $53 cap on the additional premium they are required to pay. While accounting for 80 percent of all underfunding, companies with plans at the cap pay only 25 percent of PBGC's total premium revenue.
- o Require companies with large underfunded plans to provide PBGC with detailed funding and financial information on an annual basis. Also require privately held companies with large underfunded plans to provide PBGC with advance notice of certain transactions, such as mergers and spinoffs of underfunded plans or valuable subsidiaries, that might jeopardize pension security.
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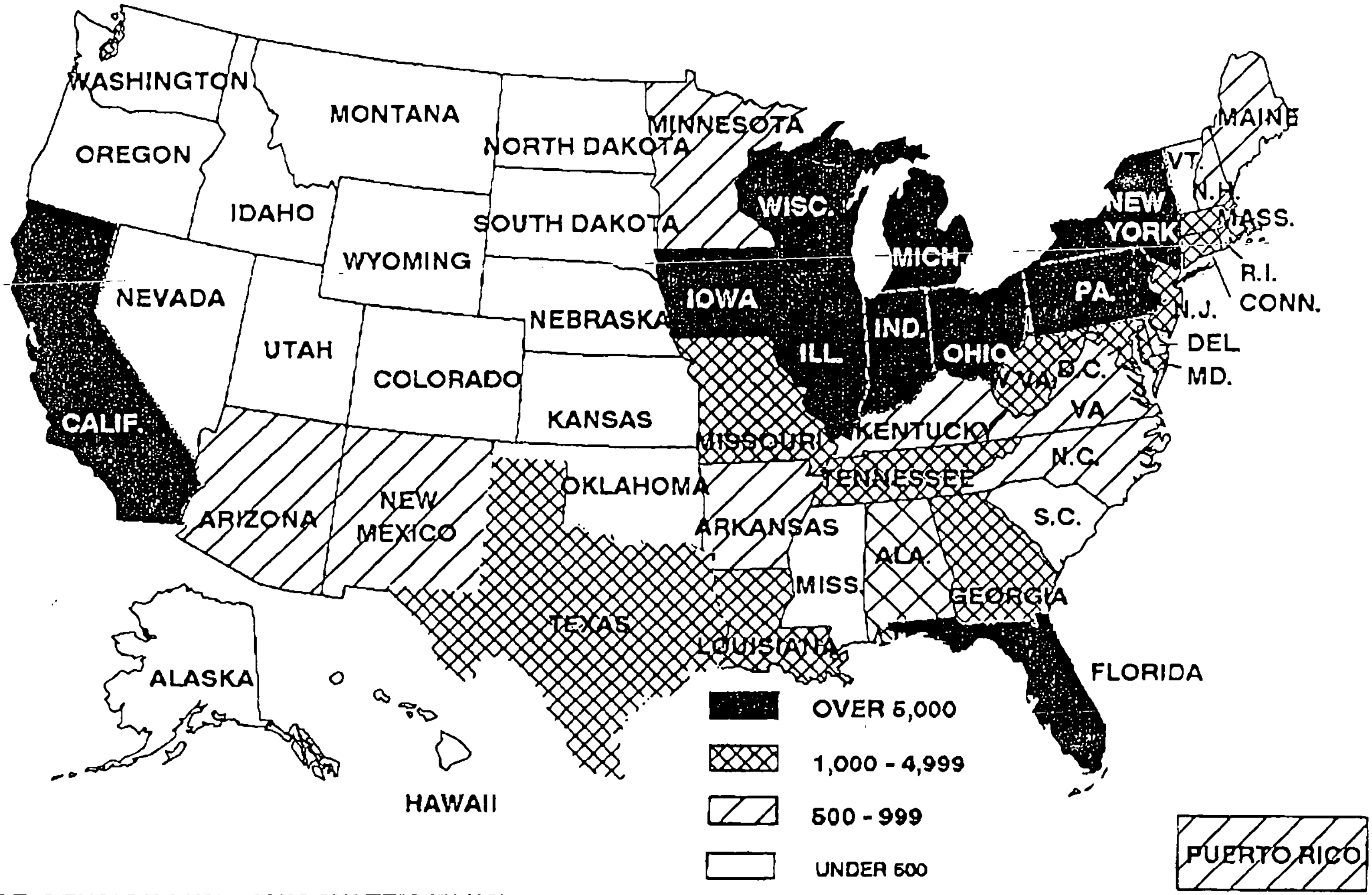
PBGC No. 95-10

THE PENSION BENEFIT GUARANTY CORPORATION

- Today PBGC insures:
    - 41 million people in ongoing pension plans.
        - Almost 14 million are retirees.
        - 1 out of 4 American workers are insured.
        - Half of these people earn their benefits in manufacturing jobs.
        - Half of these people are in union jobs.
    - 66,000 defined benefit pension plans
        - 57,000 plans sponsored by small businesses with fewer than 500 participants.
        - 90 percent of workers are in plans with over 500 participants.
- About 2,000 plans have already failed covering almost 400,000 people who are receiving or will receive benefits from PBGC.
    - PBGC pays about $60 million each month to about 160,000 retirees (and their families).
        - The average monthly payment is $379.
        - These payments go to people in every state.
        - About 30% of those receiving payments are female.
        - 88% are age 65 and older; 70% are age 70 and older.

PBGC BENEFIT RECIPIENTS BY STATE, 1993



SOURCE: PENSION LUMP SUM SYSTEM (PLUS)

THE WHITE HOUSE

WASHINGTON

March 17, 1993

MEMORANDUM FOR BOB RUBIN
BO CUTTER
GENE SPERLING

FROM: Ellen Seidman

SUBJECT: Pension Benefit Guaranty Corporation

In the 1992 Annual Report of the PBGC, outgoing Labor Secretary Lynn Martin stated: "One would have to be an ostrich with its head buried in the sand to ignore the warnings and not learn from the analogy of the savings and loan crisis." Outgoing Executive Director James Lockhart stated "If PBGC is not reformed, ever-escalating premiums could drive the well-funded plans out of the system. The result could be a weakened defined benefit system, lower savings, and potentially the need for a PBGC bailout."

While Martin used more colorful language, both she and Lockhart were concerned that, although on a cash flow basis PBGC is not likely to experience trouble in the near future, there is trouble ahead. The major source of the problem is that there are an increasing number of large underfunded plans in industries experiencing financial difficulties and the combination of corporate failure and an unfunded plan is what generates PBGC claims.

The condition of the corporation is made more difficult because:

- o bankruptcy courts have allowed some major plans to increase benefits without making contributions;
- o some serious "gaming" loopholes (such as increasing benefits, particularly early retirements, immediately before terminating a plan) still exist;
- o IRS and ERISA reforms in the mid-1980s have had the unintended consequences of (i) reducing the ability of corporations experiencing good years to overfund to cover lean years and (ii) encouraging small corporations simply to abandon underfunded plans; and
- o with interest rates down, plans that had appeared to be overfunded have become less so, at the same time some sponsors have a reduced ability to make contributions.

PBGC's plight is also the result of a shift from defined benefit to defined contribution plans. Although largely driven by corporate desire to reduce exposure to uncertain employee pension liability, the shift has been encouraged by ERISA rules and tax legislation meant to restrict over-funding, reversion and other abuses. Whether this is good or bad for either employees or shareholders is the subject of substantial debate, made more difficult by the lack of empirical evidence, the relative newness of 401(k) plans, and the fact that conservative, fixed-income investments (like GICs) performed very well during the 1980s. Nevertheless, virtually no new defined benefit plans have been created in the last several years, the plans are being terminated at the rate of about 6,000 per year, down from 1980s peaks, but still substantial. A premium increase would likely increase this flow.

The issues confronting the Administration are (i) exactly what is the nature, extent and timing of any PBGC "crisis"; (ii) exactly what is the nature of the PBGC, and in particular do we expect it to be actuarily sound and completely self-supporting under all economic conditions in all industries; (iii) do we have any view on the issue of the relative value of defined benefit plans and if so, what should we do about them; and (iv) what steps need to be taken in what timeframe in order to fix whatever is causing the potential crisis, consistent with our position on what the PBGC is really supposed to be.

Secretary Reich has established a task force to consider the first and fourth issues, although it is likely that as solutions are developed it will also need to confront the second and third. Leon Panetta has asked that the task force report back in sixty to ninety days. The task force includes representatives of Labor, Treasury, OMB, Commerce, and the PBGC. I am attending their meetings, which are currently in the "bring everyone up to date on what we know and what we've thought about in the past" stage. Unfortunately, while the task force nominally includes political appointees, not many (and none from OMB or Treasury) showed up at the last meeting.

The plan is to have a background paper with the beginnings of policy options ready to go to the policy people in about three weeks.

PBGC
U.S. GOVERNMENT AGENCY
20th ANNIVERSARY
1974-1994

Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

January 13, 1995

RETIREMENT PROTECTION ACT
TALKING POINTS

I. The Problem

Most people can count on having their pension when they retire but some eight million Americans have pensions that lack funds to pay all their employees promised.

- Underfunding of pensions has grown over the past decade. It reached $71 billion in 1993, up from $27 billion in 1988.
- Underfunding is concentrated in heavy manufacturing industries -- auto, steel, tire, machinery, and also airlines -- where people work long and hard for pensions.
- This has posed risk to workers and retirees (since the PBGC does not guarantee all benefits), to the federal insurance system which guarantees their benefits, and potentially to taxpayers. The Pension Benefit Guaranty Corporation (PBGC) already has a $2.9 billion deficit.
- People often don't even know their pensions are underfunded or that they can lose benefits which are not guaranteed.
- Because pensions have been underfunded, people who worked hard and played by the rules have not been given a fair shake.

II. Administration Initiative

With passage of GATT also came the Administration's pension reforms of the Retirement Protection Act. These are important reforms.

- Reforms are the product of intensive Administration analysis and were one of the first pieces of business when the Administration came to office.
  - -- We had just come through two spectacular pension plan failures (Pan Am and Eastern). . . each cost the government several hundred million dollars and left many workers with reduced pensions because of PBGC's guarantee does not cover everything.
  - -- We were by no means in the midst of a crisis, but a crisis potential existed.

- Retirement Protection Act largely mirrors Administration proposal sent to Congress last fall and was the product of solid bipartisan support.

III. <u>What The Law Does</u>

Key changes include:

- Strengthened funding rules for severely underfunded plans.

- Higher insurance premiums for companies with pension plans posing greatest risk.

- Easy-to-understand information about their pensions and PBGC's guarantees for workers and retirees with plans less than 90% funded.

- Additional enforcement tools for PBGC so pensions will be protected.

IV. <u>What The Law Achieves</u>

Reforms make workers, retirees, business and taxpayers winners.

- Pensions will be better funded.

  -- In large underfunded plans, funding for benefits will go from current average of about 60% to well over 85% in 15 years.

- Federal insurance system will remain strong and deficit ~~will~~ should be eliminated in 10 years.

- Businesses with well-funded plans will no longer carry unfair share of insurance cost.

- We have removed a risk for American taxpayers.

V. <u>Government Acts Best When It Anticipates Problems</u>.

The Administration saw a problem coming and acted decisively to prevent it.

- The Retirement Protection Act will strengthen pension system, assure broad protection.

- Determined to remain vigilant for the future.

Retirement Protection Act of 1994

UNITED STATES PUBLIC LAWS
103rd Congress - Second Session
Convening January 25, 1994

PL 103-465 (HR 5110)
December 8, 1994

An Act to approve and implement the trade agreements concluded in the Uruguay Round of multilateral trade negotiations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Subtitle F—Pension Plan Funding and Premiums

SEC. 750. SHORT TITLE.

This subtitle may be cited as the "**Retirement Protection Act of 1994**".

PART I—PENSION PLAN FUNDING
Subpart A—Amendments to the Internal Revenue Code of 1986

SEC. 751. MINIMUM FUNDING REQUIREMENTS.

(a) AMENDMENTS TO ADDITIONAL FUNDING REQUIREMENTS FOR SINGLE-EMPLOYER PLANS.—
(1) LIMITATIONS ON ADDITIONAL FUNDING REQUIREMENT FOR CERTAIN PLANS.—
(A) IN GENERAL.—Paragraph (1) of section 412(l) (relating to additional funding requirements for plans which are not multiemployer plans) is amended by striking "which has an unfunded current liability" and inserting "to which this subsection applies under paragraph (9)".
(B) PLANS TO WHICH REQUIREMENT APPLIES.—Section 412(l) is amended by adding at the end the following new paragraph:
"(9) APPLICABILITY OF SUBSECTION.—
"(A) IN GENERAL.—Except as provided in paragraph (6)(A), this subsection shall apply to a plan for any plan year if its funded current liability percentage for such year is less than 90 percent.
"(B) EXCEPTION FOR CERTAIN PLANS AT LEAST 80 PERCENT FUNDED.—Subparagraph (A) shall not apply to a plan for a plan year if—
"(i) the funded current liability percentage for the plan year is at least 80 percent, and
"(ii) such percentage for each of the 2 immediately preceding plan years (or each of the 2d and 3d immediately preceding plan years) is at least 90 percent.
"(C) FUNDED CURRENT LIABILITY PERCENTAGE.—For purposes of subparagraphs (A) and (B), the term 'funded current liability percentage' has the meaning given such term by paragraph (8)(B), except that such percentage shall be determined for any plan year—
"(i) without regard to paragraph (8)(E), and
"(ii) by using the rate of interest which is the highest rate allowable for the plan year under paragraph (7)(C).
"(D) TRANSITION RULES.—For purposes of this paragraph:
"(i) FUNDED PERCENTAGE FOR YEARS BEFORE 1995.—The funded current liability percentage for any plan year beginning before January 1, 1995, shall be treated as not less than 90 percent only if for such plan year the plan met one of the following requirements (as in effect for such year):
"(I) The full-funding limitation under subsection (c)(7) for the plan was zero.
"(II) The plan had no additional funding requirement under this subsection (or would have had no such requirement if its funded current liability percentage had been determined under subparagraph (C)).
"(III) The plan's additional funding requirement under this subsection did not exceed the lesser of 0.5 percent of current liability or \$5,000,000.
"(ii) SPECIAL RULE FOR 1995 AND 1996.—For purposes of determining whether subparagraph (B) applies to any plan

(B) by striking "35" and inserting "60".
(6) UNPREDICTABLE CONTINGENT EVENT AMOUNT.—
(A) Subparagraph (A) of section 412(l)(5) is amended—
(i) by striking "greater of" and inserting "greatest of" before clause (i);
(ii) by striking "or" at the end of clause (i);
(iii) by striking the period at the end of clause (ii) and inserting ", or"; and
(iv) by adding after clause (ii) the following new clause:
"(iii) the additional amount that would be determined under paragraph (4)(A) if the unpredictable contingent event benefit liabilities were included in unfunded new liability notwithstanding paragraph (4)(B)(ii)."
(B) Paragraph (5) of section 412(l) is amended by adding at the end the following new subparagraph:
"(E) LIMITATION.—The present value of the amounts described in subparagraph (A) with respect to any one event shall not exceed the unpredictable contingent event benefit liabilities attributable to that event."
(C) Clause (ii) of section 412(m)(4)(D) is amended—
(i) by striking "greater of" and inserting "greatest of" before subclause (I);
(ii) by striking "or" at the end of subclause (I);
(iii) by striking the period at the end of subclause (II) and inserting ", or"; and
(iv) by adding after subclause (II) the following new clause:
"(III) 25 percent of the amount determined under subsection (l)(5)(A)(iii) for the plan year."
(7) REQUIRED INTEREST RATE AND MORTALITY ASSUMPTIONS FOR DETERMINING CURRENT LIABILITY.—
(A) IN GENERAL.—Subparagraph (C) of section 412(l)(7) is amended to read as follows:
"(C) INTEREST RATE AND MORTALITY ASSUMPTIONS USED.—Effective for plan years beginning after December 31, 1994—
"(i) INTEREST RATE.—
"(I) IN GENERAL.—The rate of interest used to determine current liability under this subsection shall be the rate of interest used under subsection (b)(5), except that the highest rate in the permissible range under subparagraph (B)(ii) thereof shall not exceed the specified percentage under subclause (II) of the weighted average referred to in such subparagraph.
"(II) SPECIFIED PERCENTAGE.—For purposes of subclause (I), the specified percentage shall be determined as follows:

"In the case of plan years beginning in calendar year:	The specified percentage is:
1995	109
1996	108
1997	107
1998	106
1999 and thereafter	105.

"(ii) MORTALITY TABLES.—
"(I) COMMISSIONERS' STANDARD TABLE.—In the case of plan years beginning before the first plan year to which the first tables prescribed under subclause (II) apply, the mortality table used in determining current liability under this subsection shall be the table prescribed by the Secretary which is based on the prevailing commissioners' standard table (described in section 807(d)(5)(A)) used to determine reserves for group annuity contracts issued on January 1, 1993.
"(II) SECRETARIAL AUTHORITY.—The Secretary may by regulation prescribe for plan years beginning after December 31, 1999, mortality tables to be used in determining current liability under this subsection. Such tables shall be based upon the actual experience of pension plans and projected trends in such experience. In prescribing such tables, the Secretary shall take into account results of available independent studies of mortality of individuals covered by pension plans.
"(III) PERIODIC REVIEW.—The Secretary shall periodically (at least every 5 years) review any tables in effect under this subsection and shall, to the extent the Secretary determines necessary, by regulation update the tables to reflect the actual experience of pension plans and projected trends in such experience.
"(iii) SEPARATE MORTALITY TABLES FOR THE DISABLED.—Notwithstanding clause (ii)—
"(I) IN GENERAL.—In the case of plan years beginning after December 31, 1995, the Secretary shall establish mortality tables which may be used (in lieu of the tables under clause (ii)) to determine current liability under this subsection for individuals who are entitled to benefits under the plan on account of disability. The Secretary shall establish separate tables for individuals whose disabilities occur in plan years beginning before January 1, 1995, and for individuals whose disabilities occur in plan years beginning on or after such date.
"(II) SPECIAL RULE FOR DISABILITIES OCCURRING AFTER 1994.—In the case of disabilities occurring in plan