

*Round Table*

**Changes in Pension Legislation**

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*May 16, 2006*  
*3:00 p.m. – 4:15 p.m.*



## *Round Table*

### **Changes in Pension Legislation**

Pension laws and funding requirements have been changing as companies find it more difficult to keep these retirement programs alive. The US has seen discount rate and pending pension accounting changes as the specter of an increasing number of pension fund failures haunts the already under funded Pension Benefit Guaranty Corporation. Canada and Europe are responding to the heavy burden on their countries economic growth that their plans currently levy, while Eastern Europe countries continue to push through renovation of their former Communist plans.



# **Pension Funding Reform Legislation**

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Brigen L. Winters  
AFP Global Corporate Treasurers Forum  
May 16, 2006

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## **Pension Reform Legislation**

- House and Senate passed comprehensive bills last year
- Conference negotiations started in March
- Timing of final bill is unclear
- If enacted, will likely be the biggest change to U.S. pension laws since ERISA in 1974
- Pension funding reform is primary driver of bill

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## **Pension Funding Reform**

- Driven by political concerns of underfunded plans being terminated and PBGC's financial status
- Timing coincides with expiration of temporary interest rate for funding purposes
- Congress must balance the concern for adequate funding with the concern that plan sponsors may terminate plans
- Bush Administration's proposal was more focused on funding levels, protection of PBGC, than on continuation of the defined benefit system

## **Bush Administration's Proposal**

- Simplification of funding methodology
- 7-Year amortization of any underfunding
- "Snap shot" approach to determining liabilities and assets
  - Current smoothing methods eliminated
- Elimination of credit balances

## **Bush Administration's Proposal**

- Funding requirements based on financial status of the plan sponsor
- Benefit and accrual limitations for underfunded and "at-risk" plans
- Increased deduction limits
- Increased participant and government disclosure
- PBGC premium increases

## **Concerns with Bush Administration's Proposal**

- Lack of predictability and volatility of contribution amounts
- No recognition of the long term nature of these liabilities
- Focus on credit-worthiness of plan sponsor in determining funding obligations
- Negative effects of eliminating credit balances
- If costs of providing pension benefits increase will employers continue to offer them

## Congressional Reaction

- Generally the Administration's Proposal has been the template for the House and Senate legislation
  - Duration matched interest rates – Modified Corporate bond yield curve
    - House and Senate bills use 3 broad categories of duration (less than 5 years; 5-20 years; 20 and over)
  - Standardized actuarial assumptions
    - Required mortality table

## Congressional Reaction

- Use of one method of liability amortization
  - DRC eliminated
- Benefit and accrual limitations
- Increased deduction limits
- Increased participation and government disclosure
- PBGC premium increases – already enacted into law

## Congressional Reaction

- Major differences with Administration Proposal
  - Some smoothing
    - Yield curve interest rates
    - Asset values
  - Limited use of credit balances
  - Use of sponsor credit-worthiness
    - House bill does not look to credit ratings to determine at-risk plans; Senate bill does
  - Delayed effective dates / Transition rules
  - Airline relief
  - Multiemployer plan reform

## Multiemployer Pension Reform

- Faster amortization of benefit increases and changes in actuarial assumptions
- Increased deduction limits
- New, additional funding requirements for “endangered” and “critical” status plans
  - Develop funding improvement (endangered) or rehabilitation (critical) plans
  - Funding benchmarks
  - Benefit and contribution restrictions
  - In critical status, employer surcharges and ability to modify certain benefits
  - Withdrawal liability changes
  - Additional disclosure requirements

## Cash Balance Plans

- House Bill
  - Prospective relief
- Senate Bill
  - Prospective relief for plans that follow specified design mandates
  - Prospective conversion mandates
  - Did not adopt HELP Committee position – retroactive application with mandates and litigation carve-out

## What Happens Next?

- FASB Financial Statement Disclosure Changes
- Freezing or termination of Defined Benefit Plans
- DOE Reimbursement Change
- Any Future for Defined Benefit Plans?

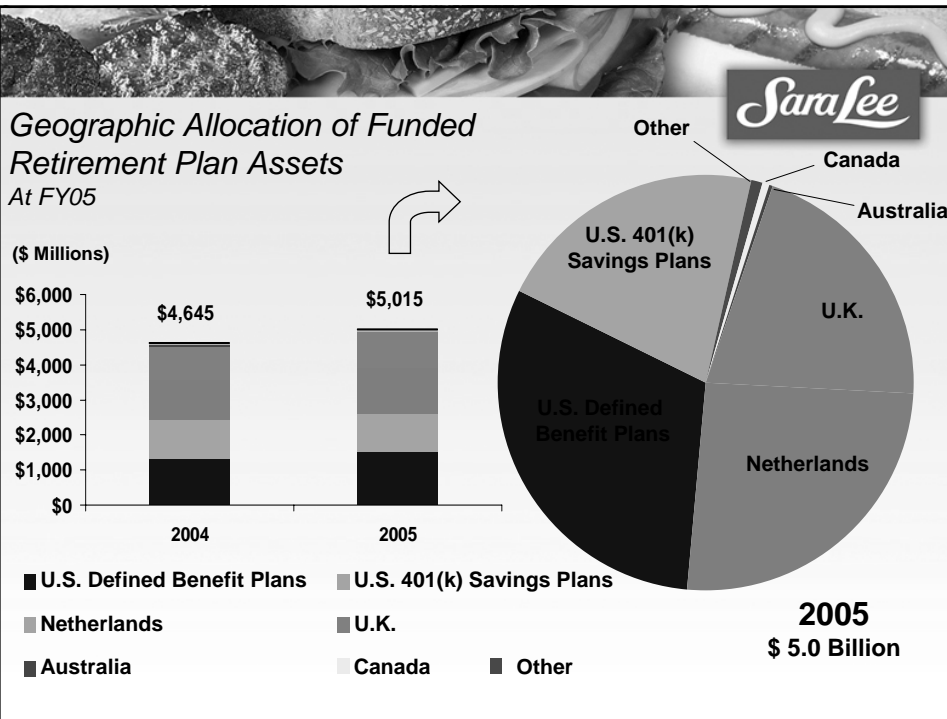


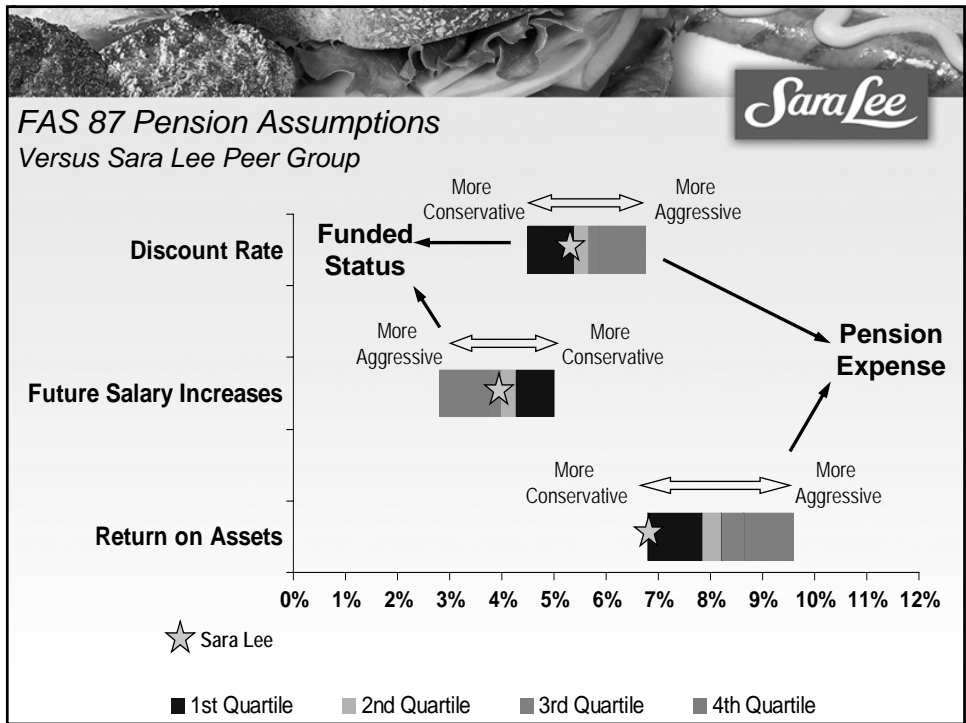
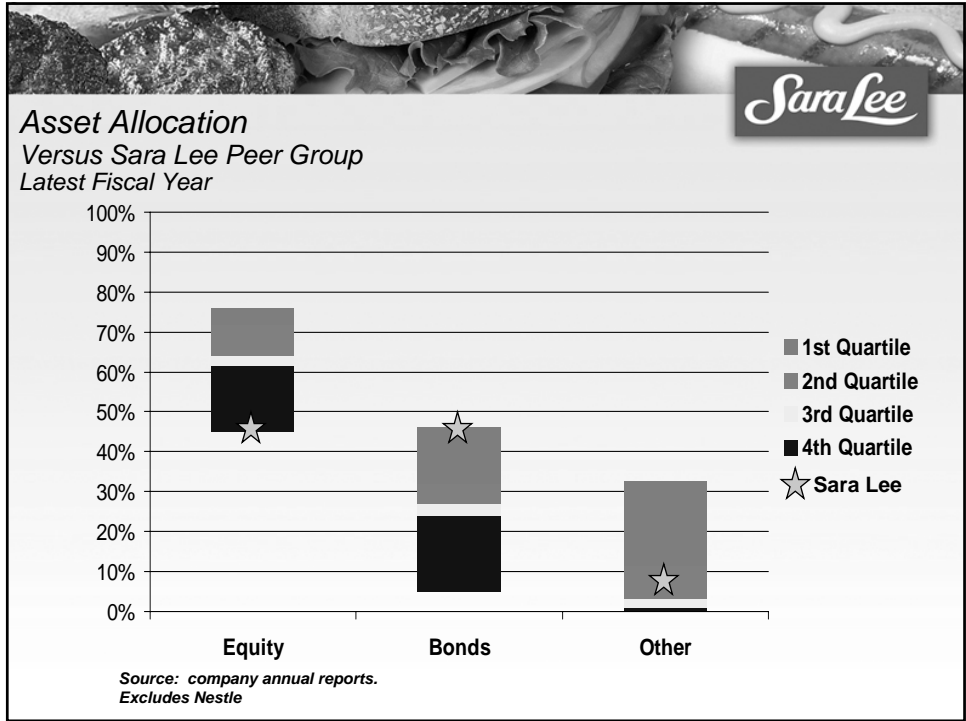
## Sara Lee Corporation Pension Overview

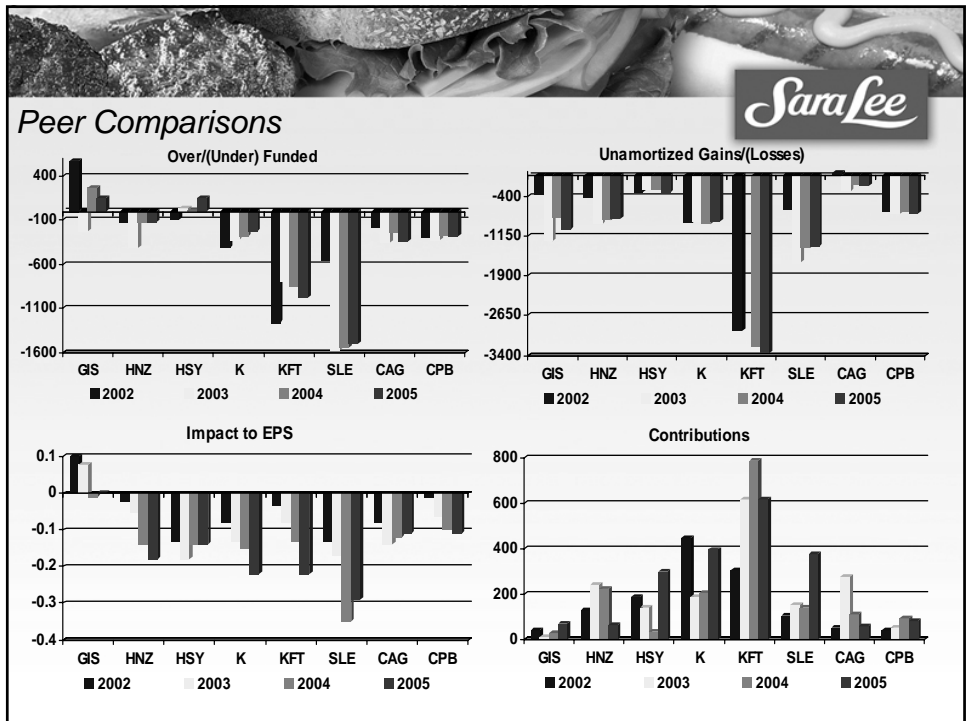
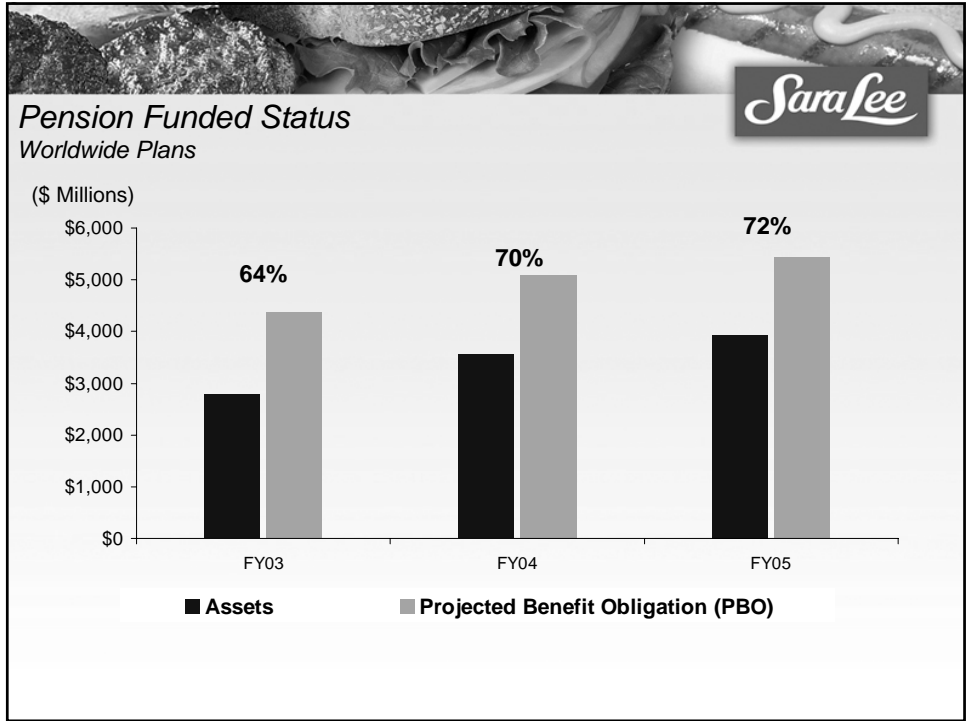
Carrie Teffner

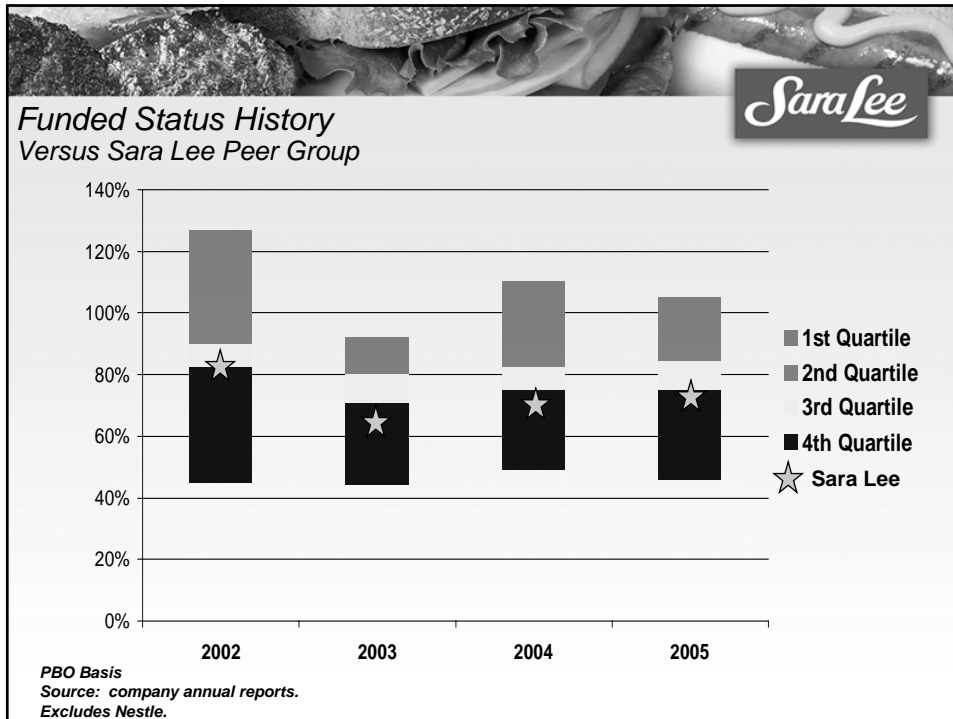
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- ### What Actions are we taking to manage exposure?
- US Defined Benefit Plan
    - No new entrants to plan
    - Enhanced DC plan
    - Allowed existing DB participants to elect into the enhanced DC plan
  - Evaluating more sophisticated Investment Strategies
    - "De-risking" the plan by attempting to match duration and addressing most significant exposure
  - Increasing Contributions