All FINANCE COMMITTEE STAFF MEMORANDUM

DATE: September 28, 2005

RE: S. 1783 – the Pension Security and Transparency Act of 2005

Background

The Finance Committee and the HELP Committee have reached a bipartisan compromise on a combined pension bill for full Senate consideration. The compromise has been introduced as S. 1783, the "Pension Security and Transparency Act of 2005" ("S. 1783"). S. 1783 combines provisions of the Finance reported NESTEG bill and the HELP reported Defined Benefit Security Act.

I. SINGLE-EMPLOYER FUNDING AND DEDUCTIONS

A. Minimum Funding

Overview

Current Law
Current law provides a two-tier funding approach. Employers fund healthy plans on an actuarially reasonable basis. However, if the plan's assets are less than 90% of its "current liability," special accelerated funding rules generally apply that require increased funding over four to seven years. The additional required payment is due to the Deficit Reduction Contribution or "DRC."

Finance Bill
The Finance bill revises the funding rules so that there is only one funding method with specified assumptions (closer to the DRC approach). The minimum funding provisions are generally effective for plans years beginning in 2007. The current DRC rules continue for 2006 with plans being able to use the current temporary rule (yield on corporate bonds) in lieu of the yield on 30-year Treasuries.

HELP Bill
The HELP bill also moves to the one funding method approach with specified assumptions.

S. 1783
The compromise follows the Finance and HELP bills.

Measuring Liabilities

Current Law
For healthy plans, the actuary uses "reasonable assumptions." However, the current liability that triggers the DRC funding rules is calculated using specified interest rate and mortality assumptions. In order to smooth contributions, the calculation uses an interest rate that is the weighted average of the interest rates for the last four years. In a declining interest rate environment, this averaged interest rate will be higher than the market interest rate, resulting in a lower liability. In an increasing interest rate environment, the averaged interest rate will be lower than the market interest rate, resulting in a higher liability than if a market rate were used.

The Internal Revenue Code and ERISA provide that interest rates shall be measured by the yield on 30-year Treasuries. However, the Congress enacted temporary relief for plan years beginning in 2004 and 2005 that allows use of the yield on high-grade corporate bonds. For plan years beginning in 2006, plans will have to once again use the 30-year Treasury bond rate unless Congress enacts another temporary, or a permanent, replacement.

Mortality is specified in Treasury regulations. The current mortality table is GAM 83. All plans must use this table. There is no plan-specific mortality table permitted.

Finance Bill
The Finance bill adopts a yield curve based on corporate bonds as the interest rate measure. Treasury is to compose the yield curve by looking at a 3-month average of high-grade corporate bond interest rates. Older workers will have expected benefit payment dates sooner and thus will have an applicable interest rate closer in (and thus generally a lower interest rate) on the yield curve. Mortality is unchanged.

HELP Bill
The HELP bill adopts a modified yield curve based on the weighted average of 36 months of investment-grade corporate bonds. Instead of using the entire yield curve, the HELP bill divides it into 3 segments, and the interest rate will depend on which segment each expected payment due date falls. The bill requires that plans use the RP-2000 mortality table, and requires 10-year updates. Plan specific mortality is allowed if there is a sufficient showing to the IRS of its accuracy

S. 1783
The compromise uses the HELP structure (segments and investment grade bonds) but averages (unweighted) over 12 months. The new yield curve is phased in over 3 years starting in 2007. The HELP mortality rules are used; however, IRS is given more authority with respect to plan-specific mortality findings.

Measuring Assets

Current Law
For funding purposes, plans may measure assets either by using the market value of assets or by using an actuarial smoothing method that allows smoothing over 5 years as long as the ultimate value is between 80% and 120% of the market value.

Finance Bill
The Finance bill requires use of either the market value of assets or, pursuant to Treasury guidance, the market value averaged over the prior 3 months and one day.

HELP Bill
The HELP bill allows use of either the market value or a smooth value. It restricts the smoothing to 3 years and a 90% to 110% range.

S. 1783
The compromise adopts the Finance structure but allows smoothing (unweighted) over 12 months.

Financial Health of Sponsor and "At Risk" Liability

Current Law
The financial health of the sponsor is not considered and there is no increase in a plan's liability because of financial health or funding level.

Finance Bill
The employer's financial health affects the amount of liabilities that the employer has to fund. The plan of an unhealthy plan sponsor will have "at risk" funding targets rather than "ongoing" funding targets because companies that are in poor financial health have higher pension liabilities (due to workers leaving early with subsidized benefits that can be twice as costly as the normal retirement benefit). The company's bond rating is the determinant of financial health. If all bond-rating agencies that rate a company rate the company as below investment grade, the company is treated as below investment grade, and the plan may have to determine its liability on an "at risk" basis. For employers without bond ratings, Treasury is to issue guidance as to appropriate substitute measures (e.g., the debt-equity ratio). Plans with 500 participants or fewer are never treated as "at risk," even if they have a bond rating.

The increased liability from being "at risk" does not apply unless the company is "at risk" for two consecutive years. The at-risk target is phased in 20% per year. Years prior to enactment do not count. If one of the rating bond agencies improves a company's bond rating for a year, that year is ignored for purposes of the both the gateway and the phase in. If the company is at risk, the plan determines liability by assuming that workers retire as soon as they are eligible and take the most valuable benefit at that retirement age. The extra cost of annuities is not considered.

At risk does not apply if the plan is 100% funded without regard to the at-risk liabilities.

HELP Bill
The HELP bill does not use credit ratings. It treats a plan as at risk only if the plan's funding on a non-at-risk basis is below 60%. Once at-risk is triggered, it phases in at 20% per year, but only the extra liabilities associated with workers who are likely to retire in the following 5 years are counted.

S. 1783
The compromise follows the Finance structure. However, it changes the initial trigger so that at risk does not apply until the sponsor has had a declining credit rating for two years, and it provides that at risk does not apply if a plan is 93% (rather than 100%) funded under the non-at-risk assumptions. It also calculates extra liabilities using workers who might retire in the following 7 years.

Funding Target

Current Law
The funding target under the DRC is 90% of the plan's current liability. (Once the DRC is triggered, the underfunding that must be funded is based on 100% of current liability.)

Finance Bill
The Finance bill increases the target to 100% of the target liability. For plans not "at risk" the bill essentially increases the target from 90% to 100% of current liability. For "at-risk" plans the target is also 100%, but 100% of a higher number. The bill phases in this new target over 3 years – 93%, 96%, and 100% -- for plans with more than 100 participants and proportionately over 5 years for plans with 100 or fewer participants.

HELP Bill
The HELP bill increases the target to 100% over 10 years.

S. 1783
The compromise accepts the Finance/HELP provision, and uses the 100 participant exception.

Valuation Date

Current Law
The valuation date is the day of the year on which all liability measurements are made. Most plans use the first day of the plan year as the "as of" valuation date, but plans may select a different date. Changes of the date are subject to approval of IRS.

Finance Bill
Plans with more than 100 participants must use the first day of the plan year as the "as of" valuation date. Plans with 100 or fewer participants may use any day of the plan year, but changes are subject to approval by the IRS.

HELP Bill
The HELP bill is the same as the Finance bill but applies the exception to plans with fewer than 500 participants.

S. 1783
The compromise adopts the Finance provision.

Minimum Contributions

Current Law
Generally, an employer must contribute an amount to cover the year's accruals plus an amount to amortize past underfunded amounts. The plan must maintain a funding standard account, and charges and credits are amortized over varying periods (from 5 to 30 years) depending on the cause of the charge or credit. In addition, unless the plan is more than 90% funded on a current liability basis (or is over 80% funded and was over 90% funded for each of the two prior years or the second and third prior years), the employer is subject to the DRC and must make an additional contribution (an amortization of the underfunding over 4 to 7 years, depending on the underfunding).

Finance Bill
The employer must contribute a year's normal cost (i.e., the amount accrued that year). In addition, the employer must amortize the shortfall between the plan's assets and its target liability over seven years. Each year the employer recalculates the amount of underfunding based on that year's assets and liabilities. The employer continues to make payments due on previous unfunded liabilities plus amortizing any new underfunding over a new seven-year period. No amortization contribution is required for any year assets exceed the liability target.

The year-to-year change in the amount of the minimum contribution is limited to prevent volatility. The limitation would be the greater of 30% of the normal cost for the preceding plan year or 2% of the plan's target liability for the preceding plan year. (Normal cost is the cost of benefit increases for the year. Target liability is the value of benefits earned in past years.)

HELP Bill
The HELP bill is similar to the Finance bill but amortizes the underfunding over 10 years. There is no year-to-year cap.

S. 1783
The compromise amortizes underfunding over 7 years. There is no year-to-year cap.

Credit Balances

Current Law
Contributions in excess of the minimum required for a year are credited as a "credit balance" and may be used in future years in lieu of required contributions. The value of credit balances increases based on the plan's assumed rate of return.

Finance Bill
The Finance bill is similar to current law. However, the value of the credit balance is marked to market rather than varying by the assumed rate of return. Also post-enactment credit balances can only arise from contributions, not from experience gains.

HELP Bill
The HELP bill follows the Finance bill except it provides that if the plan is less than 80% funded and wants to use credit balances to pay minimum required contributions, the sponsor must make a cash contribution equal to the lesser of 25% of the minimum contribution or normal cost.

S. 1783
The compromise follows the HELP bill.

Special Rules for Airlines

Current Law
Airlines must follow the same funding rules as other plan sponsors. Special relief was provided for the airlines in 2004 and 2005 that allowed them to defer paying part of their additional contribution due to the DRC.

Finance Bill
Special rules apply to airlines that allow them to fund over 14 years using their own assumptions. The new rules would apply after that. Airlines would have to elect the relief and would have to "hard" freeze their plans.

HELP Bill
Same as Finance except that certain accruals are permitted ("soft freeze").

S. 1783
The compromise adopts the Finance/HELP provision with the Finance hard freeze.

Alternative Funding Arrangements

Current Law
A plan may be terminated if it meets the distress criteria or if PBGC concludes it must be terminated involuntarily for one of several permitted reasons. The major reason PBGC goes to court to terminate a plan is a PBGC finding that PBGC will suffer an unreasonable risk of long-run loss if the plan is not terminated. PBGC has no authority to negotiate alternative funding schedules, although PBGC can negotiate additional contributions to plans and other voluntary actions by sponsors under the threat of PBGC terminating the plan.

Finance Bill
No provision

HELP Bill
PBGC would be able to negotiate alternative funding schedules with sponsors if PBGC concludes it would otherwise try to involuntarily terminate the plan or that the plan is or could file for a distress termination. PBGC could project the need to terminate up to 2 years in advance.

S. 1783
The compromise adopts the HELP provision except that the authority to negotiate alternative schedules is given to the IRS, as with hardship waivers. IRS must act in consultation with PBGC, and PBGC determines whether an employer or plan situation meets the termination criteria. PBGC can base its findings on projections for up to 6 months; however, an employer or other person can ask for a PBGC finding in which PBGC's findings would be based on projections for up to 2 years.

B. Benefit Limitations

Current Law
The Code and ERISA contain two limitations on benefit increases. First, an employer in bankruptcy cannot amend its plans to increase benefits. Second, if the funded current liability percentage of a plan, calculated using only post-1987 liabilities, is less than 60%, the employer may not increase benefits unless the employer immediately funds or secures the liability created by the benefit.

Shutdown benefits are permitted in plans and are guaranteed by the PBGC. The PBGC guarantee on shutdown benefits is phased in like the guarantee on other benefits – i.e., from the time of the plan amendment (not the time the shutdown occurs).

Finance Bill
A plan must be funded to 60%. The employer may meet this obligation by an additional contribution or by providing security. If the plan is not funded to 60% for two consecutive years, the plan is in violation of the minimum funding requirements. The

employer must pay an excise tax and the plan must freeze plan benefits and limit lump sum payments.

Benefit Increases: A plan may not increase benefits if funding is below 80% for two consecutive years. There is an exception for a cost of living increase in plans with benefits that do not automatically increase with salary ("flat dollar plans") and for collective bargaining agreements entered into when the plan was better than 80% funded.

Lump Sums: If a plan is less than 60% funded, the plan can pay lump sums and similar forms, but only up to the lesser of 50% of the otherwise available lump sum or the lump sum equivalent of the PBGC maximum guarantee amount. Once triggered, the limitation remains in effect for 2 years after the plan reaches 60%

Freezes: If a plan is less than 60% funded, accruals are frozen, and remain frozen until the plan has been 60% or greater for two years.

Bankruptcy: If the employer is in bankruptcy, no benefit increases are allowed unless the plan is 100% funded and lump sums are limited. There is no special freeze provision. Bankruptcy also triggers a temporary freeze on PBGC guarantee limits (e.g., the maximum limit and the counting of years for the phase-in of guarantees) and certain asset allocation priorities. The temporary freeze takes affect if the plan terminates before the company comes out of bankruptcy

Nonqualified Executive Compensation: There are limits on funding a company's nonqualified executive compensation arrangements if a qualified defined plan is not at least 80% funded and the company has non-investment grade bond ratings.

5-Year Rule: The benefit increase and freeze rules do not apply for the plan's first five years (but the lump sum limits do).

Shutdown Benefits. The bill provides that the PBGC guarantee of shutdown benefits is phased-in from the time of the shutdown.

<u>HELP Bill</u>
The HELP bill is similar to the Finance bill with some distinctions. The HELP bill requires employers to fund to avoid the restrictions on increases and accruals only in cases where it is required by a collective bargaining agreement. The HELP bill does not include an exception for pre-existing collectively bargained plans. The bankruptcy rules key off less than 80% funded rather than less than 100% funded. The lump sum prohibition, which is applied at 80% funded, is a pro-rata (based on funding percentage) payment. The limitation on funding for nonqualified plans is triggered by funding less than 80%.

<u>*S. 1783*</u>
The compromise is a combination of the two bills.

Benefit Increases: Plans will not be permitted to increase benefits when the sponsor is in bankruptcy or if the plan is under 80% funded (with certain exceptions). As in HELP, plans will have to fund up to 80% if there is a collective bargaining agreement.

Lump Sums: Lump sums are limited in the way described in the Finance bill, including the requirement to fund up to 60% in all cases.

Freezes: Plans must freeze accruals if funding is less than 60%. The HELP rule for funding up in the collective bargaining situation applies.

*PBG*C: The compromise applies the rules treating the bankruptcy filing date as the plan termination date for certain PBGC purposes if the plan terminates before the company emerges from bankruptcy. The compromise also includes the treatment of the shutdown as the trigger for the 5-year phase in of the PBGC guarantee.

C. Lump-Sum Calculations

Current Law
The value of lump sum payments to participants is determined using the yield on 30-year Treasuries as of the relevant date.

Finance Bill
The value of lump sums is determined based on the 3-month corporate yield curve. The change is phased in over 5 years.

HELP Bill
Same as the Finance bill except the phase in is over 4 years starting in 2007

S. 1783
The compromise follows the HELP bill.

D. Maximum Deductible Contribution

Current Law
For revenue reasons, employers are limited in the amount of deductible contributions they can make. An employer may contribute and deduct up to the plan's unfunded current liability in any year. Contributions in excess of the deductible limit may be made but they are subject to a 10% excise tax. In addition, there is a combined deductible limit for employers maintaining both a defined benefit and defined contribution plan.

Finance Bill
The bill allows employers to deduct the greater of (1) contributions up to what would have been the plan's target if the employer had been financially troubled (i.e., at-risk liability) or (2) 180% of the target liability minus the value of assets plus any liability associated with projected increases in salary or benefits. For PBGC-covered plans, the bill allows salary and benefit projection without regard to the maximums under the Code.

For 2006, employers may contribute and deduct 180% of current liability less the value of assets, but no projection is permitted. In one of the few multiemployer plan provisions, multiemployer plans may deduct up to 130% of unfunded current liability less the value of assets.

The bill eliminates the combined deductible limit for employers that maintain PBGC-covered defined benefit plans (both single-employer and multiemployer) beginning in 2007. For other employers (mainly those who provide professional services and maintain plans for fewer than 25 participants) the combined limit does not apply unless the employer's contributions to the defined contribution plan exceed 6% of compensation. This limited rule also applies to PBGC-covered plans for 2006.

HELP Bill
Same as Finance bill.

S. 1783
The compromise follows the Finance/HELP provisions.

II. DISCLOSURE

Current Law
Plan administrators must file the Form 5500 annual report, which with extensions can be filed as late as October 15th of the following year for calendar year plans. Sixty days after the annual report is filed, the plan administrator must distribute to each participant a summary annual report (SAR) providing certain summary financial data from the Form 5500. At the same time, administrators of plans that pay the PBGC variable rate premium and owe the Deficit Reduction Contribution must provide participants with a notice (the "4011 notice") of the plan's current liability funding percentage and a description of the PBGC guarantee rules. Sponsors of plans with $50 million or more in underfunding on an aggregate basis must file actuarial and financial information with the PBGC ("section 4010 filings"). PBGC must keep the information confidential.

Finance Bill
The Finance bill increases disclosure by (1) requiring plans with more than 100 participants (and owing quarterly contributions) to file an estimated actuarial report (Schedule B) 2-1/2 months after the end of the plan year; (2) moving the SAR distribution date from 60 days to 15 days after the filing of the annual report; (3) combining the 4011 notice with the SAR, requiring all plans to provide the notice, and requiring reporting of several years funding ratios on both an ongoing and at-risk basis; and (4) making section 4010 filings with the PBGC publicly available (except as otherwise limited by the Freedom of Information Act assumptions).

HELP Bill
The disclosure structure of the HELP bill is to create a 90-day notice (after the end of the plan year) of funding and other information. This notice replaces the 60-day multiemployer notice and the ERISA 4011 Notice to Participants. It must be provided by

single and multiemployer plans, although the requirements are slightly different. The bill also expands the information on the Form 5500 annual report and on the SAR. The due date of the SAR is moved to 30 days after the annual report due date.

The HELP bill changes the criteria for who has to file the section 4010 reports. Filers who are over $50 million in underfunding have to file only if their plans are less than 90% funded. Also having to file are filers with plans with aggregate funding percentages less than 60%, and those with plans less than 75% funded in the aggregate if the filer is in a troubled industry. The bill also requires plans to provide values of funding to participants when filed with the PBGC.

S. 1783
The compromise essentially follows the HELP bill. No new information is included on the SAR because the new 90-day notice has the information, but the due date is moved to 30 days after the annual report. The 90-day notice will provide snapshot funding information in addition to at-risk funding information.

The HELP provisions on section 4010 filing are adopted with a few changes. There is no 4010 notice to participants because funding information is already incorporated in the 90-day report. In addition, all companies with junk bond ratings whose plans meet the $50 million criteria will have to report to the PBGC under section 4010.

III. PBGC PREMIUMS

Flat-Rate Premiums

Current Law
Defined benefit plans pay a flat rate premium of $19 per participant. Multiemployer plans pay $2.60 per participant.

Finance Bill
The bill increases the single-employer flat rate premium to $30 starting in 2006. Starting in 2007, the flat rate premium increases each year in accordance with the same wage index used to determine maximum guaranteed benefits. There is no change in the multiemployer premium.

HELP Bill
The HELP bill increases the premium to $30. There is no indexing but the PBGC must submit to Congress a report every 5 years with recommendations on premiums. There is no change in the multiemployer premium.

S. 1783
The compromise follows the HELP provision.

Variable-Rate Premiums

Current Law
The variable rate premium or "VRP" is $9 per $1,000 of unfunded vested current liability. The VRP applies only to single employer plans. Plans that are at the full funding limit do not have to pay the VRP even though they may be underfunded.

Finance Bill
The VRP is unchanged; however, it is based on the plan's unfunded target liability. Also, changes in the minimum funding rules will result in no full funding exemption for underfunded plans.

HELP Bill
The HELP bill eliminates the full funding limit and calculates the applicable interest rate for calculating liabilities using a 3-segmented yield curve based on spot yields of corporate bonds.

S. 1783
The compromise adopts the HELP provision.

IV. MULTIEMPLOYER PLAN FUNDING RULES

Current Law
Multiemployer plans generally are subject to the same funding rules as single-employer plans. However, the DRC rules do not apply to multiemployer plans; therefore, in general the only limitations on funding assumptions is that the plan actuary certify that the assumptions are reasonable. Also, multiemployer plans have longer to amortize unfunded liabilities. There are special rules for multiemployer plans that have to be reorganized or become insolvent. This happens rarely.

Generally, multiemployer plans do not terminate nor enter reorganization. If they become insolvent, PBGC lends them money to pay a reduced benefit (well below single-employer guaranteed benefits). PBGC has only had to lend money to fewer than 30 plans since 1974. If an employer withdraws from a multiemployer plan and the plan is underfunded, the employer must pay withdrawal liability to the plan based on one of several formulas. Generally, the amount of withdrawal liability depends on the proportion of the employer's contributions over time to the other active employer's contributions.

Finance Bill
No funding provisions on multiemployer plans.

HELP Bill
The HELP bill includes detailed new rules for multiemployer plans. The new rules require plans that do not meet certain funding and other tests to adopt financial improvement plans and rehabilitation plans. Plans that have or are projected to have an "accumulated funding deficiency" and are more than 65% funded are "seriously endangered." Plans that are between 65% and 80% funded (but have no, and project no,

accumulated funding deficiency) are "endangered." Plans that are less than 65% funded are "critical." The financial improvement and rehabilitation plans specify what actions the plans and the bargaining parties will take to get out of their status within 10 to 15 years, as applicable under the provision.

S. 1783
The compromise generally follows the HELP bill. The compromise requires the plan actuary to certify not only to the funding percentage but also that the financial improvement or rehabilitation plan will accomplish its goal timely. The actuary must also certify each year that the plan is still on target or has been changed as necessary to accomplish the target. The PBGC is instructed to report in 5 years on the health of the multiemployer program and these new rules. The new rules "sunset" 3 years later.

V. HYBRID PLANS

Current Law

The legality of the cash balance design and cash balance conversion under the age discrimination rules of the Code, ERISA and the ADEA is a subject of considerable litigation. Many employers have either established new cash balance plans or converted existing final pay defined benefit plans to cash balance defined benefit plans. Participants have challenged both the basic design and the "wearaway" of benefits during a conversion. Much of the litigation is ongoing. However, there are many situations where there has been no litigation. The fact pattern of each plan design or conversion is somewhat different, and the impact on workers differs in each situation.

Finance Bill
The Finance bill says the basic design is valid and conversions are valid as long as certain rules are followed. The bill states that there is no inference as to whether the basic design or how plans were converted was legal in the past. There is also a provision addressing the "whipsaw" issue if certain rules are followed, and there is a provision on how to treat variable indices when a plan terminates.

HELP Bill
The HELP bill includes the Finance provisions. However, it goes further and addresses retroactive situations. The bill provides that cash balance plans are legal retroactively if they followed, or are amended to follow, certain specific rules. The retroactive relief does not apply to cases in litigation.

S. 1783
The compromise is prospective provisions only.

VI. DB-K

Current Law
Defined benefit plans cannot be based on 401(k) contributions. Defined benefit structures and 401(k) arrangements must be in separate plans. A special nondiscrimination safe harbor would be available.

Finance Bill
The Finance bill would allow a DB-K plan if the plan met specific requirements. While it would be treated as one plan for certain purposes, the defined benefit and defined contribution rules, as applicable, would apply as if it were 2 plans for most purposes.

HELP Bill
No provision

S. 1783
No provision

VII. OTHER PROVISIONS FROM NESTEG INCLUDED IN S. 1783

Most of the provisions from the Finance pension bill that are not related to funding would also be included in the compromise bill. These include (but are not limited to):

- **Diversification.** Publicly held companies must allow workers to divest themselves of company stock attributable to employer contributions once they have completed 3 years of service. Accounts attributable to employee contributions could be diversified immediately. Freestanding Employee Stock Ownership Plans and single-participant plans are exempt from the requirement.

- **Information.** Requires that more benefit information, investment education materials and retirement planning information be made available to plan participants.

- **Investment Advice.** The bill includes a safe harbor for independent investment advice that provides employers with liability relief for any losses that results from the investment advice given by an independent advisor.

- **Spousal Pension Protection.** Clarifies that domestic relations orders issued subsequent to a divorce can be Qualified Domestic Relations Orders directing assignment of unpaid benefits to an alternate payee (usually a former spouse).

- **Special Catch-up Contributions.** Helps individuals hurt by the ENRON bankruptcy, or a similar situation, to make additional IRA contributions for a period of 5 years. To qualify for the additional contribution, the individual must have participated in a plan that had a matching contribution made in employer stock. The employer must be bankrupt and an officer must be under indictment or subject to conviction for acts related to the bankruptcy. The additional contributions are up to

$1,500 per year for 2005 and $3,000 in tax years 2006 through 2009.

- **Portability enhancements**:
  - Allows rollovers by non-spouse beneficiaries of certain retirement plan distributions.
  - Provides faster vesting of employer nonelective contributions (6 year graded or 3 year cliff).
  - Allows direct rollovers from retirement plans to Roth IRAs.
  - Eliminates the special penalties on SIMPLE IRAs and permit rollovers between SIMPLE plans and other tax-favored retirement arrangements within the first two years of participation.
  - Clarifies rules regarding purchase of service credit from a sec. 403(b) annuity or a sec. 457 plan to a governmental defined benefit plan. This provision was requested by a number of state teachers and public employee retirement systems, including those in Montana.
- **Company-Owned Life Insurance.** This provision limits the availability of tax-free proceeds on company-owned life insurance, and provides disclosure and reporting requirements.
- **Black Lung Trust Fund and Combined Benefits Fund.** Eliminates the aggregate limit on the amount of excess black lung benefit trust assets available to pay premiums, and transfers the additional amounts available to the UMWA Combined Benefit Fund.