HIGHLIGHTS OF THE PENSION SECURITY AND TRANSPARENCY ACT

(Amendment in the Nature of a Substitute)

Requires companies to fund pension promises by strengthening rules for single-employer plans

- **Funding target**. Requires companies to contribute more to their pension plans, aiming for 100% funding.
- **Modified Yield Curve:** The funding calculation uses a modified corporate bond yield curve (three segments).
- **At-Risk Funding:** Certain companies that are junk bond-rated must make additional payments to their pension plans to cover additional costs like increases in subsidized early retirement benefits. Provides exceptions for companies whose credit ratings are stable or improving, as well as additional exceptions for companies with well-funded pension plans (93%).
- **Increased deduction limits**: Encourages companies to put more money into their pension plans when times are good.
- **Protects Shutdown Benefits:** Preserves shutdown benefits that are critical to workers in the steel, auto, and other manufacturing industries, but phases in the PBGC guarantee over five years from the date of shutdown.
- **Benefit Limitations**: Limits increases in benefits or accrual of future benefits and limits lump sum payments when plans become underfunded.
- **Fair Treatment for Workers and Executives**: If a company underfunds its pension plan, it cannot fund executive compensation.
- **PBGC Premiums**: Increases per-person premiums to the PBGC from $19 to $30. Adds a premium of $1,250 per participant for plans terminated in bankruptcy payable for three years after exiting bankruptcy
- **Rural Cooperative Plans**: Provides transition period for rural agricultural, electric, and telephone cooperatives to adjust to new rules.

Helps prevent future pension failures

- **Airlines:** Provides 14-year funding transition period to preserve airline pension plans.
- **New program**: Gives workers, companies, and the government tools to work out payment schedules to save financially troubled plans.

Gives workers timely and accurate information on pension plan finances

- Requires that within 90 days of the end of each plan year, workers and retirees get a report telling them how well-funded their pension plan is, and comparing its condition to the previous two years.
- Greatly expands information multiemployer and single employer pension plans must report, including data on financial status, investments, number of participating workers and retirees, and other information important to understanding the health of a pension plan.
- Provides additional information about the financial condition of a pension plan when it is in trouble or when a company is threatening to drop its pensions.

Protects workers and businesses in multiemployer pensions

- Requires troubled plans to improve their financial condition.
- Severely underfunded pension plans must adopt a ten-year Rehabilitation Plan, during which time employers are shielded from drastic contribution increases and excise taxes, which could drive businesses into bankruptcy and cost workers their jobs. Companies and workers must negotiate to restore the plan to financial health.
- PBGC will issue a study on the state of multiemployer funding in five years. Plans will be eligible to enter the Rehabilitation Plan for up to eight years.

Protects older workers in cash balance plan conversions

- Provides clear legal guidance that cash balance pensions are not inherently age discriminatory.
- Requires these pensions to be more portable, so that they better serve a mobile workforce.
- Protects older workers by providing transition benefits or a choice between the old pension and the new one.

Adopts post-Enron worker pension protections for workers in 401(k) plans

- **Diversification.** Ensures that workers do not have all their eggs in one basket by allowing them to diversify their pension investments from employer stock.
- **Information.** Workers and retirees get regular statements showing the market value of pension investments and noting any restrictions on the right to control their investments. Provides notification that investments may not be adequately diversified if more than 20% of the account is in one investment. All workers get annual investment guidelines and retirement planning information.
- **Additional retirement savings for workers harmed by financial scandals.** Allows individuals hurt by the Enron bankruptcy, or a similar situation, to make additional contributions to their retirement accounts for 5 years.

Gives workers access to independent investment advice

- Encourages employers to provide workers access to advice that is free from conflicts of interest as they make choices about how to invest their pension retirement accounts.

Provides greater retirement security for widows/widowers and former spouses

- Clarifies qualified domestic relations orders rules to give divorced spouses greater ability to receive a share of their former spouses' pension benefits.
- Requires pension plans to provide additional benefit options for surviving spouses.

Enhances Retirement Savings and Benefits

- Encourages companies to use automatic enrollment and automatic increase in 401(k) pension plans to ensure that workers save more. Provides guidance to employers in choosing investments for these automatic savings vehicles.
- Helps companies provide a secure retirement by expanding rules for allowing excess pension assets to be used for retiree health care.
- Establishes Federal Task Force on Older Workers to examine retirement security.

Relief for Pension Plans Affected by Hurricanes Katrina, Rita, and Wilma

- Allows for extension of filing deadlines for pension plans affected by Hurricanes Katrina, Rita, and Wilma.

Provides for Equal Treatment of Certain State and Local Governmental Pension Plans

- Clarifies treatment of tribal plans as governmental plans.
- Permits state and local governments to maintain 401(k) plans.

Modernization of Tax Court Retirement Benefits

- Allows Tax Court judges to participate in the Thrift Savings Plan.
- Provides for adjustments to benefits to surviving spouses and children, including benefits for surviving spouses of judges who are assassinated.

Provides Limited Additional Exemptions to ERISA Prohibited Transaction Rules

- Provides limited exceptions from ERISA's conflict of interest rules to allow pension and health plans to engage in certain types of transactions—block-trades, trades on Electronic Communication Networks and foreign exchanges transactions—when certain required safeguards are in place.
- Allows a 14-day correction period for unknowing violations of prohibited transactions rules.
- Directs the Secretary of Labor and President's Working Group on Financial Markets to study implication of active cross-trades and prohibited transactions.
- Directs GAO to prepare a report on these changes to ERISA prohibited transaction rules.

Enhanced portability rules

- Ensures that workers will grow into, or vest, more quickly in amounts their employers provide in a retirement plan (generally 3 years instead of the 5 years under current law).
- Simplifies rules allowing workers to rollover amounts from one retirement account or plan to another, thereby encouraging continued retirement savings.

Company Owned Life Insurance (COLI)

- Limits the availability of tax-free proceeds on company-owned life insurance, and provides disclosure and reporting requirements.