



CREDIT BALANCES PROVIDE A CRITICAL INCENTIVE TO PREFUND PENSION PLANS

THE PROPOSED ELIMINATION OF CREDIT BALANCES WILL DISCOURAGE COMPANIES FROM CONTRIBUTING MORE THAN THE MINIMUM REQUIRED CONTRIBUTION

- Under current law, if an employer makes a contribution in excess of the minimum required contribution, the excess plus interest can be credited against future required contributions. Credit for prefunding is an important planning tool that helps to mitigate volatile and unpredictable funding requirements by allowing and encouraging employers to fund up during good times.
- The Administration's proposal would not give sponsors who prefund direct credit for their excess contributions. This means that an employer who puts in more than the minimum is put in a worse position than an employer who merely makes the minimum contribution. This discourages advance funding, which would lower overall funded status levels and increase risk to the PBGC.

THE ADMINISTRATION CORRECTLY IDENTIFIES A PROBLEM WITH THE CURRENT LAW CREDIT BALANCE SYSTEM; BUT THE PROPOSED SOLUTION IS FLAWED

- Anecdotal evidence suggests that the current law credit balance system has been a factor in terminating plans assumed by the PBGC. However, it is not credit for prefunding that is the problem; it is the fact that credit balances are not immediately adjusted if the underlying value of the assets decreases.
- We support adjusting credit balances based on the plan's actual investment result, which is a carefully targeted reform that preserves appropriate incentives to prefund.

ANY CHANGES TO THE CREDIT BALANCE SYSTEM HAVE TO BE PROSPECTIVE; ITS UNFAIR TO CHANGE THE RULES ON COMPANIES THAT RELIED ON THE CURRENT RULES

- Companies have made contributions to their plans in reliance on the existing rules. It is fundamentally unfair to simply wipe out all existing credit balances as the Administration's has proposed.
- Changing the rules in the middle of the game creates a dangerous precedent that will make any company reluctant to make future extra contributions to pension plans.