



IMMEDIATE ACTION IS NEEDED TO FIX THE PENSION SYSTEM

In spite of the value defined benefit plans provide to employees, employers, our national retirement income system and the U.S. economy, employers have been exiting the defined benefit system in alarming numbers in recent years. The primary causes include uncertainty regarding funding obligations; barriers to contributing during good times; and the lack of clear guidance on cash balance and other hybrid plans.

Reforms are needed to ensure that we continue to have a vital defined benefit system well into the future. However, any reforms must avoid disrupting or undermining the economy. The Business Roundtable has developed principles to help guide pension reform. Consistent with these principles, we believe the following steps should be taken promptly.

- **MAKE THE LONG TERM CORPORATE BOND RATE PERMANENT.** The best way to protect the pension system for future retirees is to make permanent the long-term corporate bond rate that Congress adopted last year. The long-term corporate bond rate provides a realistic picture of future pension liabilities and is the best measure of liability.
- **ALLOW EMPLOYERS TO CONTRIBUTE TO PLANS DURING GOOD ECONOMIC TIMES.** Barriers that prevent employers from making contributions to their plans should be eliminated. Reforms are needed to tax rules that prevent employers from contributing.
- **ADJUST CREDIT BALANCES FOR REAL MARKET RETURNS.** Credit for prefunding (“credit balances”) encourages companies to fund their plans during good times, which helps employer's better plan their product investments, accelerates plan funding and reduces risk to the PBGC. However, plans with poor investment results have been able to use credit balances that no longer exist to meet their minimum required contributions. We support administrable reforms to adjust credit balances based on actual investment results.
- **PROVIDE TIMELY AND APPROPRIATE DISCLOSURE.** Participants should have timely and meaningful funding information on their retirement plans. Reforms are needed to provide full and fair disclosure without creating undue administrative burdens or unnecessary concerns among participants.
- **CONFIRM THE LEGALITY OF HYBRID PLAN DESIGNS.** Nearly a third of large employers with defined benefit plans maintain hybrids and, according to the PBGC, there are more than 1,200 of these plans providing benefits to more than 7 million Americans as of the year 2000. It is critical that Congress confirm the age appropriateness of the hybrid plan designs.
- **MINIMIZE THE MORAL HAZARD IN THE PENSION SYSTEM.** Plan sponsors that make pension promises they cannot keep “shift” their liabilities to the PBGC and pose a hazard to other sponsors participating in the system. Careful consideration should be given to reforms that prevent benefit increases that are not likely to be funded.