

**Retirement Security Task Force  
Principles for Reforming the Defined Benefit Pension Plan System  
January 2005**

1. **Defined benefit pension plans (DB plans) are a critical component of our national retirement security system. Employees who participate in DB plans accumulate, without investment risk, benefits that can be paid over their lifetime after retirement. Employees covered by DB plans do not run the risk that they will outlive their retirement income. DB plans also provide valuable survivor protections and are funded almost exclusively by employers. Within limits, pensions are guaranteed through the Pension Benefit Guaranty Corporation (PBGC).**
  - It is critical that decisions by policy makers recognize the importance of DB plans to the voluntary, private, retirement system.
  - Policy makers should focus on targeted reforms to address specific problems in the system but avoid unnecessary complexity.
  
2. **Employer-provided benefit programs represent a cost of doing business that must constantly be managed in order to balance the many competing resource needs of the business. Defined benefit plan sponsors are committed to funding their plans and paying for PBGC premiums at levels that will adequately and reasonably ensure a sound defined benefit system over the longer term.**
  - Lawmakers need to make permanent the temporary interest rate that replaces the obsolete 30-year Treasury bond interest rate used for pension calculations. The temporary rate, which is based on long-term corporate bond rates, is an accurate discount rate that ties liabilities to annuity purchase rates. This is the most pressing issue currently faced by employers that sponsor, and individuals who rely on, defined benefit pension plans.
  - Significant—and unwarranted—increases in funding obligations could have severe, counterproductive effects on the economy, the defined benefit plan system, plan participants and the PBGC.
  - The funding of future pension obligations is one of the major factors considered by companies and their investors in developing strategic business plans. Well-established, predictable funding rules, which allow for “smoothing” of variables, are critical to viable, long-term planning.

- It is critical to preserve the current system of giving plan sponsors credit for advance funding so that sponsors can contribute additional amounts to their pension plans when their situations allows.
  - Inflated pension obligations could force plan sponsors to choose between diverting important resources from business needs to pension plans or freezing or terminating their DB plan. This is a “false choice” that could hamper economic growth, threaten the future of the PBGC and negatively impact plan participants and plan sponsors.
- 3. In order to enable and encourage employers to participate in the voluntary DB plan system, policy makers must modify funding requirements to reduce the volatility of pension funding contributions.**
- Funding requirements should not worsen the impact of business cycles.
  - Because pension funding is a long term effort, it is critical that plan sponsors be allowed to determine funding obligations under a system that allows the “smoothing” of variables rather than a “spot” approach.
  - The funding rules should be modified to provide employers with the flexibility and discretion necessary to make additional tax-deductible contributions to a DB plan.
  - Any funding requirements for DB plans should not restrict the ability of employers to fund other types of retirement plans by imposing an excise tax or other penalty.
- 4. ERISA is a comprehensive and valuable statute that has enabled employers to provide retirement security for millions of American workers for almost 30 years. While the “defunct” 30-year Treasury bond may necessitate immediate focus on permanency and other alternatives before the temporary “fix” expires at the end of 2005, the broader reform process should not be rushed, and any changes should be carefully analyzed before being implemented.**
- ERISA is the foundation of our voluntary, private retirement system. Thus, it is critical that Congress and the Administration seek input from employers, plan sponsors, professional groups and plan participants before proposing changes to the statute.
  - An extensive structure of interrelated laws and regulations has been built on the ERISA foundation. Therefore, policy makers must evaluate thoroughly the potential impact proposed changes could have on the behavior of plan sponsors, potential plan sponsors, plan participants and capital markets.

- The duplicative, overlapping, and conflicting requirements that have been added to ERISA since its enactment should be simplified or eliminated.
- 5. Plan sponsors take seriously their obligation to meet the prudence and diversification standards in ERISA. They are committed to providing a secure retirement for plan participants.**
- A plan sponsor should not be penalized or pay higher PBGC premiums if the plan's investment policy complies with ERISA standards.
  - Any proposed reforms must support the sound approach in ERISA that does not favor investments in one asset class over another, e.g., bonds over stocks.
  - Any changes must preserve the ability of plan sponsors to use smooth asset values for funding calculations.
  - Credit ratings should not impact plan funding requirements or premiums. Pension law should not rate companies or endorse private rating agencies. Government entry into this area would set a frightening precedent.
- 6. In order to preserve a viable and strong pension system that ensures the retirement security of America's workers, plan participants must receive accurate and understandable information about plan benefits.**
- Any reforms should not include mandates requiring plan sponsors to provide plan information that may mislead or inappropriately alarm employees.
  - In developing any new reporting or disclosure requirements, policy makers should ensure that employees receive the information they need, while avoiding unnecessary burdens on plans and plan sponsors.
- 7. Reforms should support a soundly financed Pension Benefit Guaranty Corporation that encourages the maintenance and growth of DB plans.**
- PBGC acts as an insurance company for defined benefit plans and, as such, should not impose undue restrictions and obligations on plan sponsors.
  - The financial status of the PBGC should be measured over the long term, taking into account projected cash flow and return on investments, not on the basis of short-term surpluses and deficits.