

Pension Protection Act of 2006



A Guide for USW
Staff Representatives

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PENSION PROTECTION ACT OF 2006

I. INTRODUCTION

On August 17, 2006, H.R. 4, known as “The Pension Protection Act of 2006” (PPA), was signed into law. The PPA will eventually affect the funding and regulation of almost all forms of retirement and deferred compensation plans, with most changes becoming fully effective by 2008. This Summary is not intended to help explain all aspects of the law but rather focus on specific elements that will most directly impact **defined benefit*** pension plans of the type in place in our basic manufacturing industries. The Summary also covers certain provisions that affect “**cash balance**” and other forms of **hybrid plans**, as well as 401(k) and related **defined contribution** arrangements.

You can view the complete text of the PPA on the internet at www.thomas.gov (use “search bill text” box to find “Pension Protection Act of 2006”). The official explanation, prepared by the Congressional Joint Committee on Taxation, is available at www.house.gov/jct/x-38-06.pdf. Also, if you have specific questions, you may contact the USW Pension and Benefits or Legal Departments in either Pittsburgh or Nashville.

II. SINGLE EMPLOYER DEFINED BENEFIT PLAN CHANGES

The most significant change made by PPA is the complete overhaul of the minimum funding rules for single employer plans. While the impact of the new rules will vary from plan to plan, we generally expect that required contributions for most plans will be greater than under the current rules and particularly so for so-called “at-risk” plans.

A. Summary of Current Minimum Funding Rules

The current minimum funding requirements are based on a plan’s **Funding Standard Account**. Annual charges to that account equal the cost of benefits earned during the year and the applicable **amortization** payment of liability increases (such as from benefit increases and actuarial losses). Annual credits to the account are the contributions actually made, the applicable **amortization** payment of liability decreases (such as from actuarial gains), and any credit balance resulting from past contributions in excess of the minimum required amounts. For plans with a funded **current liability** percentage of less than 90 percent, an additional funding charge (the deficit reduction contribution) could lead to higher contributions under today’s rules.

For the most part, the current minimum funding rules do not mandate the **actuarial assumptions** or methods used to calculate a plan sponsor’s required

* Words in **bold** type can be found in the glossary located at the end of this document

contributions. Instead, plan sponsors were generally permitted to choose among several accepted methods, and the underlying **actuarial assumptions** had to be reasonable. However, there were mandated interest rate and **mortality assumptions** for calculating **current liability**, the basis for the additional funding charge applicable to plans with a funding percentage less than 90 percent.

B. Overview of New Approach under PPA

Under PPA, there is essentially a single set of funding rules with the annual contribution based on a comparison of the market value of plan assets to the **funding target liability** of the plan. If the plan's assets are less than the sum of the target liability (the present value of benefits previously earned under the plan) and the normal cost (the cost of benefits earned during the year), the resulting shortfall must be **amortized** over the next seven years.

The new rules limit existing flexibility by mandating the interest rate and mortality table to be used for calculating a plan's target liability, and restricting the methods for valuing a plan's assets. For plans considered to be "at-risk," there are additional required assumptions for determining the target liability that will increase that liability. (See sub-section 3. below.) The new funding rules will become effective for plan years beginning after December 31, 2007.

1. Interest Rate and Mortality Table – The Liability Side

The interest rate that must be used to determine a plan's target liability under the PPA is a three-segment **yield curve** based on the rates on high-quality corporate bond of varying maturities. The use of the **yield curve** is intended to more closely measure pension liabilities based on when they become due over time. The three segments cover benefits payable: (1) during the first five years; (2) in the 15 years following the end of the five year period; and (3) more than 20 years in the future.

The **yield curve** will be developed and published by the Internal Revenue Service (IRS), and employers may choose between using the 3-segment rates based on a 24-month average or a **full yield curve** as of a current date. Once an election is made, any change in the method must be approved by the IRS.

The IRS will also develop the mortality tables to be used by pension plans to value benefit liabilities, although plan-specific tables may be approved if the plan is large enough with sufficient experience.

2. Valuing Plan Assets

PPA modifies the existing permitted methods for valuing a plan's assets. The market value of assets must be used, although asset values may be averaged over up to a 24-month period with the resulting average falling between 90 to 110 percent of fair market value. The result of this change will likely be more volatility in valuation of plan assets and required contributions.

3. Special Rules for At-Risk Plans

Plans considered to be in at-risk status are required to use additional statutory assumptions for calculating their target liability, and an employer will have to make additional contributions as a result. Only plans with more than 500 participants are subject to the new at-risk rules.

A plan is in at-risk status for any year if it meets both of the following tests for the prior plan year:

1. Its funded percentage, calculated using the general assumptions, as described in sub-sections 1. and 2. above, is less than 80 percent; and
2. Its funded percentage, calculated using the special at-risk assumptions, is less than 70 percent.

The 80-percent test will be phased-in over four years with the initial percentage of 65 in 2008 increasing by five percent for each year until it reaches 80 percent in 2011.

The special at-risk assumptions require a plan to value its liabilities by assuming that employees who would be eligible to retire during the current year and the next 10 years will actually retire at the earliest possible date and elect the most valuable form of benefit. In addition, if a plan is in at-risk status and was in that status for two out of the four preceding years, the liability will be increased by an additional **loading factor** equal to the sum of four (4) percent of the funding target and \$700 times the number of participants.

For a plan that has not been in at-risk status for five consecutive years, the additional contribution is phased-in over a five-year period. Plan years beginning before January 1, 2008, are not counted toward the five-year period.

C. Benefit Restrictions Based on Plan's Funded Status

The PPA tightens existing restrictions limiting benefit improvements (and lump-sum payments) by under-funded plans, but even more importantly, it introduces new restrictions requiring the freeze of benefit accruals and shutdown and other contingent event benefits when a plan's funded status falls below 60 percent.

These new restrictions will have potentially devastating effects if a plan's funded percentage falls below 60 percent during the term of a collective bargaining agreement. In that case, benefit accruals become frozen and shutdown retirement benefits prohibited, regardless of what a CBA or pension agreement may otherwise provide. Accruals may not resume until the employer contributes the amount necessary to lift the freeze.

Retroactive recovery of lost benefit accruals would require a plan amendment which does not appear to be permitted until the funding level rises above 80 percent. To avoid these consequences, USW bargainers may have to consider seeking a contractual requirement that the funded percentage of any pension plan covering our members be maintained at 60 percent, or 80 percent, or even higher.

The general effective date for the new benefit restrictions is the first plan year beginning in 2008, the same date the new funding rules come into play. However, there is a delayed effective date for collectively bargained plans based on when the agreement in effect on August 17, 2006, expires.

CBA Expiration Date	Effective Date (Plan Years Beginning On or After)
Before January 1, 2008	January 1, 2008
After January 1, 2008, But Before January 1, 2009	January 1, 2009
After January 1, 2009	January 1, 2010

1. Restrictions on Benefit Improvements

Under today's rules, a plan that is less than 60 percent funded cannot be amended to increase benefits unless the employer provides security. PPA makes benefit improvements more difficult by raising the funding threshold and tightening the funding and security requirements.

Under PPA, pension plans that are less than 80 percent funded may not adopt benefit improvements. However, there is an exception for flat multipliers which may increase by the same percentage as wages. For example, if a wage increase of 5 percent is negotiated, a pension multiplier of \$40 may be increased by 5 percent to \$42.00.

The current rule prohibiting benefit increases when an employer is in bankruptcy remains in effect under PPA.

2. Benefit Freezes

If a pension plan's funded percentage falls below 60 percent, all benefit accruals are frozen. This means that service earned by employees will not increase their monthly pension amount although it will be credited for vesting and benefit eligibility.

Benefit accruals will not resume until the funded percentage goes above 60 percent and although they will restart automatically (that is, without a plan amendment), the resumption is only for service earned on and after the resumption date. A specific plan amendment will be needed to provide benefit accrual for the period of the freeze. Based upon the new benefit improvement requirements, it appears that the plan's funded percentage must be at least 80 percent for that amendment to be adopted.

3. Shutdown and Other Contingent Event Benefits

PPA forbids the payment of shutdown and other contingent event benefits (often referred to as "magic number" pensions in USW negotiated plans) if the plan's funding level falls below 60 percent.

If Steelworkers begin receiving shutdown benefits because the plan's funded percentage at the time of the event was above 60 percent, benefit payments will continue even if the funded percentage later falls below 60 percent.

Once they are forbidden, shutdown benefits will not automatically become available when the plan's funded percentage rises above 60 percent. Instead, a plan must be amended to reinstate shutdown benefits. While it is not clear from the statutory language, government regulators may decide that the plan's funded percentage will have to be above 80 percent in order for such an amendment to be adopted if they choose to treat reinstatement as a benefit increase.

4. Lump-Sum Payments

Under current law, if a plan's assets fall below the threshold level and the employer fails to contribute the amount needed to increase assets above the threshold, then the payment of lump sums is prohibited.

PPA introduces additional restrictions on lump-sum and other payments larger than the regular monthly benefit ("prohibited payments"). If a plan's funded percentage is less than 60 percent or the employer is in bankruptcy, then no lump-sum payments may be made by the plan. Plans with funded percentages between 60 and 80 percent must restrict the amount of any lump-sum payment to approximately 50% of what would otherwise be permitted.

5. Avoiding Benefit Restrictions

Each of the new benefit restrictions can be avoided if the employer makes an additional contribution to increase the plan's funded percentage. In the alternative, the employer may provide security (collateral given to guarantee payment) to the plan. For example, the employer may provide a corporate bond as security; if the employer fails to fulfill his obligations under the plan or if the plan terminates, then the collateral will be liquidated and used to fund the plan. The amount of the contribution or the security must be enough to increase the plan's funded percentage above the threshold triggering the restriction (80 percent for benefit improvements and 60 percent for benefit accrual freezes and shutdown benefit payments).

6. Notice of Benefit Restrictions

Participants will receive written notice within 30 days of the date on which the plan becomes subject to the benefit restriction. However, such notice is not required for bans on benefit improvements. Also, PPA does not require that the Union, as the collective bargaining representative, receive a copy of any notice.

D. New Options for Defined Benefit Plans

1. New Joint and Survivor Option

Currently, all **defined benefit** plans must offer married participants a qualified joint and survivor annuity (QJSA) that provides for payment of at least 50 percent of the participant's benefit to a spouse following a death after retirement. The QJSA can only be revoked if both the participant and spouse elect to reject the benefit.

PPA requires plans to include a new qualified optional survivor annuity in addition to the QJSA. If a plan currently provides a QJSA providing a spouse with a monthly payment that is less than 75 percent of the participant's benefit, the qualified optional survivor annuity must be 75 percent. If a more generous QJSA—one paying a spouse at least 75 percent of the participant's benefit—is provided by the plan, the new optional survivor annuity must pay 50 percent of the participant's benefit to the spouse.

Plans must offer the new qualified optional survivor annuity in plan years beginning on and after January 1, 2008. However, for collectively bargained plans, the effective date may be delayed until the plan year beginning on and after January 1, 2009, if a collective bargaining agreement ratified before August 17, 2006 (date of PPA enactment) expires after January 1, 2008.

2. Working Retirement Distribution Option

Generally, pension plans begin to pay benefits after a participant enters retirement. However, the law presently allows plans to pay benefits while a participant is still actively employed, provided that he has reached normal retirement age under the plan.

PPA provides plans with the option of paying benefits to participants age 62 and over who are still actively employed. As a result, employees who are 62 or older but who have not yet attained “normal retirement age” under the plan may continue to work and receive pension payments. This option allows employers to create a “phased retirement” program for participants; however, it is important to emphasize that employers are not required under the PPA to offer such programs. This provision applies to distributions in plan years beginning after December 31, 2006.

III. PBGC GUARANTEES AND PREMIUMS

A. PBGC Guarantees Limited

For the first time since **ERISA**’s enactment in 1974, the PPA restricts the guarantees provided by the Pension Benefit Guaranty Corporation when a single employer **defined benefit** plan is terminated.

1. Bankruptcy Filing Date Treated as Plan Termination Date

The most important change to the PBGC guarantee is the new rule establishing the filing date of a bankruptcy petition as the date for calculating the PBGC guarantees. As a result, should a bankrupt company terminate its **defined benefit** pension plan, the PBGC will (a) apply the maximum guarantee limits in effect on the date the bankruptcy petition was filed, and (b) not guarantee any benefit based on service earned (or age attained) after the filing date.

Here is how the rule would affect Steelworkers covered by a plan that includes a 30-year retirement benefit, assuming the plan terminates two years after the bankruptcy petition is filed:

Employees with at least 28 but less than 30 years of service as of the filing date will not have a PBGC-guaranteed 30-year retirement benefit, since the PBGC will not recognize service accrued after the filing date and prior to plan **termination**. These employees will only be eligible for a deferred vested benefit with the amount based on their service as of the filing date, and such benefits will be subject to the PBGC maximum guarantees in effect at that time.

Employees with at least 30 years of service as of the filing date will have a PBGC-guaranteed 30-year retirement benefit, but their pension amount will be limited to the service earned as of the filing date.

The new rule is effective for all bankruptcy petitions filed on and after September 16, 2006, 30 days after PPA was enacted.

2. Shutdown Benefits Phase-In

The PPA modifies how the PBGC guarantee for shutdown and other contingent event benefits will be calculated.

ERISA includes a “phase-in rule” for benefit increases made during the five years before a plan terminates. Under the phase-in rule, the PBGC guarantees the larger of:

- \$20 per month; or
- 20 percent of the amount of the benefit increase

multiplied by the number of full years the benefit increase has been in effect.

Before PPA, the date of a plan amendment that established the shutdown retirement benefit triggered the beginning of the phase-in period. Once the amendment was in effect for five years, any participant who later began receiving a shutdown benefit was fully protected by the PBGC guarantee if the plan terminated. (Of course, any subsequent increases in the benefit multiplier used to calculate the shutdown pension are also subject to phase-in.)

Under the PPA, shutdown benefits will now be subject to the phase-in rule with the date of the shutdown treated as if it were the date of a plan amendment. So, even if the plan has included shutdown benefit provisions for decades, the new rule means that any enhanced benefit due because of a shutdown (other than a temporary supplement which was never guaranteed) will be phased-in over the five-year period following the shutdown. For the enhanced benefits to be fully protected, the plan **termination** date must be more than five years after a shutdown occurs.

This new rule also means that groups of pensioners receiving shutdown benefits may be treated differently when a plan terminates. Those receiving pensions for more than five years before the **termination** date will have the greatest possible PBGC guarantee. Pensioners first becoming eligible less than five years before the **termination** have only a portion of their pension attributable to the shutdown guaranteed, with the amount depending upon the number of years they received the benefit.

What's worse is that if a shutdown occurs after a bankruptcy petition is filed, there is no PBGC guarantee for any increased benefits due solely to the shutdown under the new rule setting the filing date as the **termination** date.

The new phase-in rule for shutdown and other contingent event benefits is retroactive to any event that occurred after July 26, 2005.

B. Increased PBGC Premiums

As part of the Deficit Reduction Act of 2005, PBGC flat-rate premiums were increased for both single and multiemployer plans for plan years beginning after December 31, 2005, and future premium increases will be indexed based on increases in average wages under Social Security. For 2006, the new flat-rate premiums are \$30 per participant for single employer plans (up from \$19) and \$8 per participant for multiemployer plans (up from \$2.60).

In addition, the Deficit Reduction Act included a new "exit" premium due for the three years following a distress **termination** or PBGC-initiated **termination**. The annual exit premium will be \$1,250 for each participant in the plan as of the **termination** date making the three-year total \$3,750 per participant. This new premium applies to any covered **termination** after December 31, 2005, although companies who filed for Chapter 11 reorganization under the Bankruptcy Code before October 18, 2005, are exempt.

As originally passed, the exit premium would sunset on December 31, 2010. PPA, however, eliminates that end date, and the exit premium will be a permanent part of PBGC's premium structure.

PPA also increases the **variable rate premium** that single employer plans will pay beginning in 2008. While the basic variable premium rate of \$9 per \$1,000 of unfunded vested benefits remains unchanged, the plan's funding target under the new funding rules will be the basis for determining the amount of unfunded vested benefits. If the plan is deemed at-risk under the new rules, the larger at-risk funding target will also apply for the variable premium, leading to potentially significant increases. In addition, in determining the amount of liability for which a variable premium must be paid, the plan must use an interest rate based on the three-segment **yield curve** for a single month, rather than the 24-month average that can be used under the new minimum funding rules.

IV. MULTIEMPLOYER DEFINED BENEFIT PLANS

In addition to rewriting the funding rules for single employer **defined benefit** plans, the PPA also modifies the funding requirements for multiemployer **defined benefit** plans by shortening certain **amortization** periods. The most significant changes made by PPA are the special rules requiring the trustees of under-funded plans to take action to

improve their funded status. All of the multiemployer plan funding changes will become effective for plans years beginning on and after January 1, 2008, and the special rules for under-funded plans will expire with plan years beginning on and after January 1, 2015.

The new rules create two groups of under-funded plans: those in endangered status and those in critical status. A plan falls into seriously endangered/endangered status (also known as "Yellow Zone" status) if it is less than 80 percent funded and/or projected to have a funding deficiency within seven years, respectively. A plan is in critical or "Red Zone" status if it fails any of 5 tests based on combinations of measurements of under-funding, including if it is less than 65 percent funded, if there is a projected inability to pay future benefits, and if there is a projected funding deficiency. The PPA requires trustees to develop plans to address the under-funding, including contribution increases, benefit reductions, and plan redesign.

The trustees of the three multiemployer plans that cover most Steelworker groups (the Steelworkers Pension Trust, PIUMPF and NIGPP) are currently analyzing the changes made by PPA and will provide any needed information about the plan's status when their reviews are completed.

V. CASH BALANCE AND OTHER HYBRID PLANS

Over the last ten years, there have been numerous lawsuits involving **cash balance** and other **hybrid plans** (such as pension equity plans) claiming that the benefit formula provides relatively lower benefits to older workers, and thus is discriminatory under federal law. Some of these cases specifically challenged the methodology used to convert a traditional **defined benefit** pension plan to a **cash balance** plan where the conversion reduced the benefits that older employees had expected to receive. Various legislative proposals were introduced over the years in Congress to address some of these concerns, but none was passed.

Under the PPA, for periods after June 29, 2005, all **hybrid plans** are deemed not to violate the age discrimination provisions in the Age Discrimination in Employment Act, **ERISA**, and the Internal Revenue Code, as long as the pay and interest credits of older workers are comparable to those of younger workers in similar positions. Legal challenges to actions taken before June 29, 2005, are not subject to the PPA, and thus are left to the courts.

In addition, PPA requires that, starting in 2008, **hybrid plan** participants must be vested after completing three years of service. Also, **hybrid plans** may not credit interest at a rate higher than a market rate. Lastly, PPA provides that employees who participated in **defined benefit** plans which were converted into **hybrid plans** must receive the benefits accrued before the conversion plus any future benefits accrued after the conversion.

VI. 401(k) AND OTHER DEFINED CONTRIBUTION PLANS

A. Vesting of Employer Contributions

Currently, the Internal Revenue Code provides that employer contributions and matching contributions must vest at least as fast as under the following schedules. Employer contributions currently vest either 100% after five years or gradually until 100% vested after seven years of service. Employer matching contributions vest at a faster rate, either 100% after three years or gradually over six years as shown in the following table:

Year	3 Year Cliff	6 Year Graded
1	0%	0%
2	0%	20%
3	100%	40%
4	100%	60%
5	100%	80%
6	100%	100%

Under the PPA, the faster schedule (shown in the table above) applies to both employer contributions and matching contributions. However, it is important to note that the PPA vesting rules do not apply to past contributions.

For collectively bargained plans, the effective date of the PPA vesting rules depends upon the expiration date of the CBA. In general, the new vesting rules apply to plan years beginning on and after January 1, 2006, provided the employee earns one hour of service under the plan after the new rules apply to the particular plan. However, there is a delayed effective date for collectively bargained plans based on when the agreement in effect on August 17, 2006, expires as shown in the following table:

CBA Expiration Date	Effective Date (Plan Years Beginning On and After)
Before January 1, 2007	January 1, 2007
After January 1, 2007, But Before January 1, 2008	January 1, 2008
After January 1, 2008	January 1, 2009

B. Automatic Enrollment

Current law permits (but does not require) 401(k) plans to “automatically enroll” employees; that is, when an employee fails to elect either to participate in or to opt out of the plan, then money is automatically taken out of employee’s pay and deposited into the 401(k) plan. Automatic enrollment plans must still satisfy certain **nondiscrimination tests**, which prevent plans from favoring highly compensated employees.

While the PPA continues to allow, but not mandate, automatic enrollment, it relaxes the application of the **nondiscrimination test** by creating an optional “safe harbor.” Under the new rules, an automatic enrollment plan is deemed to satisfy the **nondiscrimination tests** if the employee’s automatic enrollment contribution for the first year is at least 3% of his compensation, and the employer matches 100% of the first 1% of deferred compensation, and 50% of the next 5% of deferred compensation. The new law also clarifies that state laws prohibiting deductions from employees’ pay without their affirmative consent do not apply to automatic enrollment arrangements for 401(k) plans.

Again, the PPA does not require automatic enrollment of participants nor does it require employers to make contributions or match employee contributions. Nevertheless, the relaxation of the nondiscrimination rules and preemption of state laws will likely encourage greater use of automatic enrollment and expand participation in 401(k) plans.

The automatic enrollment provision is effective for plan years beginning after December 31, 2007.

C. Default Investments

Employees who participate in 401(k) plans are provided with a range of investment options to choose from. If a participant fails to make any investment choices, then **plan fiduciaries** may make default investments on the participant’s behalf. Such default investments must be made for the benefit of the participant. Under the current law, **plan fiduciaries** may be held liable for such default investments if their default investment choices are imprudent.

Under PPA, when **plan fiduciaries** make default investments, the participant will be treated as though he made the investment choices himself. As a result, **plan fiduciaries** will not be held liable for default investments, provided that certain protections are afforded to participants. Specifically, the participant: (1) has the opportunity to direct the investments himself and failed to do so, (2) receives notice, written in a clear and understandable form, at least 30 days before the first default investment is made, (3) receives any available material relating to the plan, and (4) is allowed to transfer the assets to another investment without financial penalty.

It is also worthwhile to note that default investments must be diversified so as to minimize the investment risk to the participant, and (except in very limited circumstances) default investments may not be made in employer stocks. This provision is effective for plan years beginning after December 31, 2006.

D. Investment Advice

Existing laws generally prohibit **plan fiduciaries** who manage **defined contribution** plan assets from also advising participants on choosing among that manager's investment options. However, PPA now permits **plan fiduciaries** to hire those managers to give investment advice to individual participants, provided that the advisor satisfies certain safeguards designed to help ensure that the advice is objective. The safeguards are satisfied if (a) the advisor does not receive additional compensation based upon the investment selections of plan participants, or (b) the advice is derived from the application of a computer model that is certified by an independent party. In this fashion, the safeguards are intended to protect participants by preventing advisors from giving advice that serves their own interests over the interests of the participant. This provision is effective for advice provided after December 31, 2006.

E. EGTRRA Changes Made Permanent

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) included several temporary provisions that benefit employees. Notably, the Act allowed workers age 50 and over to make "catch-up" contributions of \$1000 per year to an IRA. Similarly, for 2006 EGTRRA limited annual contributions to 401(k) plans to \$15,000, plus a maximum annual 401(k) "catch-up" contribution of \$5,000.

EGTRRA also gave employees the option of earmarking their elective deferrals as "Roth 401(k)" contributions. Normally, taxation of 401(k) contributions is deferred; therefore, the money is not taxed when it is earned and placed into the 401(k), but contributions and investment earnings are taxed later when the money is withdrawn from the account. Roth 401(k) contributions, however, are taxed when the money is earned and placed in the 401(k), and neither the contributions nor the investment earnings are taxed later when the money is withdrawn from the account.

The catch-up contribution provisions were set to expire in 2010, and the Roth 401(k) alternative was set to expire after 2006. PPA eliminates both of the expiration dates, making these advantageous EGTRRA provisions permanent.

F. Employer Stock Diversification

Presently, **defined contribution** plans that invest in employer stock are subject to limited diversification requirements, and employers are permitted to restrict the

participant’s ability to sell the stock. Such plans benefit employers but place participants at great risk. PPA reduces this risk by removing restrictions on the ability to sell employer stock. Under PPA, participants have the right to sell immediately any elective contributions invested in employer stock. In addition, participants have the right to sell employer stock received as employer contributions at any time, provided that the participant has been in the plan for three years. The three-year requirement may be satisfied by years of plan participation before and/or after the enactment of PPA.

In general, these provisions apply to plan years beginning on and after January 1, 2006. However, there is a delayed effective date for collectively bargained plans based on when the agreement in effect on August 17, 2006, expires.

CBA Expiration Date	Effective Date (Plan Years Beginning On and After)
Before January 1, 2007	January 1, 2007
After January 1, 2007, But Before January 1, 2008	January 1, 2008
After January 1, 2008	January 1, 2009

VII. REPORTING AND DISCLOSURE

A. Defined Benefit Plan Funding Notice

Currently, the law requires a plan administrator for a **defined benefit** plan to provide each plan participant with a Summary Annual Report (“SAR”). The SAR contains general information about the plan’s financial status. In addition, administrators of under-funded plans must supply all participants with an annual Notice of Funding Status, which includes information concerning the limits of the PBGC’s guarantee.

PPA eliminates both the SAR and the Notice of Funding Status requirements and replaces them with a Defined Benefit Plan Funding Notice. This Notice must be published annually and contains important information about the funding of the plan, including the plan’s funding target, plan assets and liabilities, statistics on plan participants, and funding policies. All of the required funding information must be provided for the current plan year and the last two plan years. The Notice must also explain (1) any benefit changes and their effects, (2) the rules for plan **termination**, (3) the benefits guaranteed by the PBGC, and (4) the limits of the PBGC’s guarantees.

In addition to being more comprehensive, the Notice will be timelier and reach more people. PPA requires that the Notice be distributed within 120 days of the end of the plan year, and the Notice must be sent to each participant, the PBGC, and each

representative union. In the case of multiemployer plans, the Notice must also go to each participating employer.

The new Notice requirement will benefit our members by providing them with information that they do not receive under the current system. In addition, supplying participants with a single, comprehensive report will hopefully minimize confusion and improve participants' understanding of their pension plans.

PPA eliminates the Notice to Participants of Funding Status for plan years beginning on and after January 1, 2007, and eliminates the SAR for plan years beginning on and after January 1, 2008. The new Defined Benefit Plan Funding Notice will apply to plan years beginning on and after January 1, 2008. It will be due 4 months after the plan year; April 30 for calendar year plans.

B. Electronic Display of Form 5500

Form 5500 includes basic plan and actuarial information and must be filed annually by **defined benefit** plan administrators. Upon filing, the information becomes public record. Under current law, plan administrators may file Form 5500 either on paper or electronically. PPA removes the option of filing on paper and instead requires that Form 5500 may only be filed electronically. Core information from the electronic documents will be accessible via the internet at the Department of Labor website. In addition, PPA requires that the core Form 5500 information be displayed on any Intranet website for plan participants.

These changes will benefit USW members by providing them with easier and faster access to information about their pension plans. The provision will apply to plan years beginning on and after January 1, 2008.

C. Periodic Benefit Statements

At present, **defined contribution** plan administrators are required only to provide participants with benefit statements upon request but are not required to provide more than one statement per year. Under PPA, administrators are still required to provide benefit statements on request (but not more than once per year). In addition, PPA mandates that administrators provide the following benefit statements with or without the participant's request.

Type of plan and participant:	Plan administrators must provide:
Participant in a <u>defined contribution</u> plan who has the right to direct investments	One benefit statement per quarter, which must include information on: <ul style="list-style-type: none"> • Restrictions on the participant’s right to direct investments • Risks of holding more than 20% of a portfolio in a one type of security, such as employer stock, and • The benefits of diversification
Participant in a <u>defined contribution</u> plan who does <u>not</u> have the right to direct Investments	One benefit statement per year
Active, vested participant in a <u>defined benefit</u> plan	Either: <ul style="list-style-type: none"> • One benefit statement every three years, <u>or</u> • An annual notice that a benefit statement is available and an explanation of the steps the participant must take to obtain a copy of the benefit statement

Under the PPA, our members will no longer have to request benefit statements. As a result, more of our members will read about their plans on a regular basis and will hopefully gain a better understanding of their plans. In general, these provisions apply to plan years beginning on and after January 1, 2007. However, there is a delayed effective date for collectively bargained plans based on when the agreement in effect on August 17, 2006, expires as shown in the following table:

CBA Expiration Date	Effective Date (Plan Years Beginning On and After)
Before January 1, 2007	January 1, 2007
After January 1, 2007, But Before January 1, 2008	January 1, 2008
After January 1, 2008	January 1, 2009

D. Single Employer Defined Benefit Termination Information

Under current law, single employer **defined benefit** plans may be terminated either voluntarily by the employer or involuntarily by the PBGC. When plans are terminated voluntarily, plan administrators must give notice of intent to terminate to plan participants at least 60 days before the proposed **termination** date. The notice given to plan participants generally describes the plan's status, whereas information that must be provided to the PBGC is very specific.

Under PPA, any participant affected by either a voluntary or involuntary **termination** may request a copy of all information submitted by the plan administrator to the PBGC. Plan administrators must supply requesting parties the information within 15 days after receiving the request.

PPA provides our members with better access to detailed information about their plan in the event of a voluntary or involuntary **termination**. These provisions apply to plan **terminations** occurring after August 17, 2006.

GLOSSARY

actuarial assumptions: Assumptions made by an actuary about future contingent events, such as investment return on assets, how long people will live (mortality), when people will retire, etc., for the purpose of estimating the value of future benefits.

amortize: To pay off a debt, with interest, over time.

cash balance plan: A type of defined benefit plan which defines the promised benefit in terms of a stated account balance. Many cash balance plans provide retirees with the option of receiving their account balance in the form of an annuity or in a lump sum. See also *hybrid plan*.

current liability: The present value of benefits accrued to date based on IRS-mandated interest and mortality assumptions.

defined benefit plan (DB plan): A pension plan in which the employer provides a specific benefit based upon a stated formula that may take into consideration salary and years of service. The employer bears the investment risk.

defined contribution plan (DC plan): An individual account pension plan, such as a 401(k), in which the benefit is based solely on the amount in a participant's account. Items such as income, expenses, gains, losses, and forfeitures may be added to or subtracted from the account. The individual bears the investment risk.

ERISA (Employee Retirement Income Security Act): The 1974 federal statute that regulates private pension plans and employee benefit plans and that established the Pension Benefit Guaranty Corporation (PBGC).

flat rate premium: The premium that plans must pay annually to the PBGC for each plan participant. See also *variable rate premium*.

funding standard account: A bookkeeping account which is maintained in order to determine whether a defined benefit pension plan is meeting minimum funding standards set by law.

funding target liability: The value of all benefits accrued by the start of a plan year, as measured in accordance with statutory requirements.

hybrid plan: A defined benefit plan that defines the benefit in terms that are more characteristic of a defined contribution plan. See *cash balance plan*.

mortality assumptions: Assumptions based upon statistical data indicating life expectancies for people in various categories, such as age, gender, and disability status.

nondiscrimination test: IRS-prescribed tests to determine whether plan benefits unduly favor high-paid employees.

plan fiduciary: One who holds plan assets in trust for plan participants; a fiduciary must exercise a high standard of care in managing and investing the assets wisely.

termination: Provided that it does not violate any collective bargaining agreement, an employer may initiate the termination of a single employer plan in either of the two following ways:

- **standard termination:** An employer may opt to terminate a defined benefit pension plan after showing the PBGC that the plan has enough money to pay all benefits owed to plan participants. The plan must then either purchase an annuity from an insurance company or issue lump-sum payments to participants.
- **distress termination:** An employer in financial distress may terminate an under-funded defined benefit plan by applying for distress termination with the PBGC. Essentially, the employer must prove that it cannot remain in business unless the plan is terminated and that the plan does not have enough funds to pay all benefits owed to plan participants. If distress termination is granted, then the PBGC takes over the plan as trustee and pays plan benefits using the remaining plan assets as well as PBGC funds.

variable rate premium: A premium paid to the PBGC by under-funded plans; the premium is based on the amount of a plan's unfunded benefit liabilities. See also *flat rate premium*.

yield curve: A graph representing the market rates of return on investments with durations equal to the x-axis amounts.

