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Politics & Government 

Posted on Thu, Aug. 17, 2006

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Thursday, Aug 17, 2006

Highlights of pension reform bill

Associated Press

Major provisions of the pension protection bill:

_Requires employers with defined-benefit plans to make sufficient contributions to meet a 100 percent funding target and erase funding shortfalls over seven years.

_Forces employers with "at-risk" plans to make accelerated contributions. Under one scenario, a plan is deemed at-risk if it falls below 70 percent funded status using assumptions that employees take the most expensive benefits and retire at the earliest possible date.

_Changes the interest rate model used for measuring a company's pension liabilities.

_Prohibits employers and unions from increasing benefits if a plan is less than 80 percent funded, unless the benefits are paid for immediately.

_Restricts the use of deferred executive compensation arrangements for employers with severely underfunded pension plans.

_Gives bankrupt airlines with a "hard freeze" on their plans an additional 10 years to meet funding obligations. A plan sponsor would pay a termination premium of \$2,500 per plan once it emerges from bankruptcy. Airlines with a "soft freeze" on their plans would get an extra three years and must also pay the \$2,500 premium if they terminate their plan upon entering bankruptcy. The premium would have to be paid when they emerge from bankruptcy.

_Ends the legal uncertainty surrounding cash balance pension plans and establish a simple age discrimination standard for all defined-benefit plans.

_Bars companies from forcing employees to invest any of their own retirement savings contributions in company stock.

_Permits qualified financial companies to offer face-to-face investment advice to help employees manage 401(k) and other retirement options. Those companies would be required to base recommendations on employer-sponsored plans such as 401(k)s on a certified computer model.

_Makes permanent provisions in a 2001 tax cut law that raised annual contribution limits for IRAs.

_Gives taxpayers the option of depositing a portion of their federal tax refund directly into an IRA.

_Allows employers to offer automatic enrollment in employer-sponsored defined contribution pension plans such as 401(k)s.

_Allows employers with defined benefit pension plans that are more than 120 percent funded to use assets to fund retiree health benefits.





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