

## CFO

### Bush Signs Pension Bill

The long-awaited pension reform becomes law, reportedly shielding taxpayers from the risk of paying the price for corporate underfunding.

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President Bush on Thursday signed into law the long-awaited pension bill, designed to shore up the funding of existing defined-benefit plans and further loosen the rules regarding defined-contribution plans.

Calling the Pension Protection Act of 2006 "the most sweeping reform of America's pension laws in over 30 years," Bush chided companies that are "not putting away the cash they need to fund the pensions they promised to their workers." Ultimately, the goal is to head off the possibility that taxpayers—a majority of whom don't have traditional pension plans—don't pony up more of their income to guarantee retirement benefits for the minority that have a traditional pension.

Critics of the previous funding standards have said taxpayers might one day have to supply a potential multibillion-dollar bailout of the Pension Benefit Guaranty Corp., the insurer of defined-benefit pension plans, if standards aren't tightened.

"This bill establishes sound standards for pension funding," Bush said, according to the Associated Press. "Yet in the end, the primary responsibility rests with employers to fund the pension promises as soon as they can." The president added that the message from the White House to companies is clear: "Keep the promises you make to your workers. If you offer a private pension plan to your employees, you have a duty to set aside enough money now so your workers will get what they've been promised when they retire."

Pension experts are divided over the benefits of the law. **"The best thing about this law is that it recognizes that small businesses cannot be treated like large corporations," said Pamela Constantino, co-owner, president, and COO of Polycomp, a California-based provider of customized retirement plans and benefit administration, in a statement. She added that by passing the bill lawmakers are signaling that they recognize that a "one size fits all" approach to pension and retirement issues doesn't work. "Small businesses and their employees deserve, among other things, lower premiums and funding requirements, higher deduction limits, expanded access to 401(k) plans and simplified paperwork," noted Constantino.**

On the other hand, officials at the Pension Rights Center, an organization critical of the new law, assert that the changes do nothing to stop companies from freezing their pensions and, with time, will weaken the pension system, according to the Associated Press.

Earlier this month, CFO.com reported that the law would amend the Employee Retirement Income Security Act and the Internal Revenue Code to establish new minimum funding standards for single-employer and multi-employer defined benefit pension plans.

The new law, however, provides some major airlines a break in terms of complying with the new funding standards. It provides for special rules allowing commercial airlines to amortize their funding shortfalls over a number of years, depending upon the status of their pension plans.

The law addresses several other key pension issues. For example, the new act will: close loopholes that enable underfunded plans to skip cash pension payments; prohibit employers and union leaders from promising extra benefits if pension plans are significantly underfunded; and strengthen disclosure rules to give workers and retirees more information about the status of their pension plan.

In addition, executive-compensation packages known as "golden parachutes" will be restricted if the pension plans of rank-and-file employees are at risk.

The bill also allows workers to contribute more to deferred taxed savings accounts, such as IRAs and 401(k)s, in future years, according to the AP. Also, employers can automatically enroll employees in 401(k) accounts, and financial services firms will receive greater leeway to offer investment advice to 401(k) and IRA savers, reported the AP.