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Actuaries Seek Improvements to Pension Reform Proposal

(Washington, D.C. –April 26, 2005) Ron Gebhardtsbauer, senior pension fellow at the American Academy of Actuaries, addressed the financial status of the Pension Benefit Guarantee Corporation (PBGC) and the Bush administration's pension funding reform proposal. He gave testimony today before the Retirement Security and Aging Subcommittee of the U.S. Senate Health, Education, Labor, and Pensions Committee.

"Most of the PBGC's $23 billion deficit last September was from probable terminations," Gebhardtsbauer said. He noted that a good portion of the terminations could have been avoided if the law allowed two things: the ability to freeze the guarantees in those pension plans, which is suggested in the administration's proposal, and the PBGC to work out pension financing deals with financially weak employers.

Gebhardtsbauer also addressed the effect of the PBGC's increase in premiums stating that this would cause some employers to fund their pension plans quickly to 100%, so that the variable premium rules will no longer apply. "However, many financially healthy employers have said they will terminate their plans, which will not help the PBGC in the long run, because these employers would no longer pay premiums," he said.

Gebhardtsbauer stated that the Academy is encouraged that the administration has taken significant steps in framing reform. He noted the administration's proposed use of one funding rule and one amortization period, which improves transparency and simplicity. Solvency is helped by faster amortization and targeting 100% funding. Flexibility is enhanced by their provision to increase the maximum deductible contribution to 130% of a projected liability amount. However, while the administration's use of one funding rule eliminates a funding cliff, which is very helpful, their proposal would still increase volatility anyway due to requiring the use of market assets and only 90-day averaging of interest rates. The Academy believes solvency is important, but unless volatility and predictability are also addressed, many employers will terminate their defined benefit plans.

"A retirement system without the life income guarantees provided in defined benefit plans would present an enormous risk to society as our population ages," Gebhardtsbauer said. "Creating additional barriers would have negative repercussions for national retirement security, the markets, employees, the PBGC, and an employers' ability to manage its workforce."

To view a copy of Gebhardtsbauer's testimony go to www.actuary.org. To interview Gebhardtsbauer, please contact Tracey Young, the Academy's media relations manager at 202-785-7872, or by e-mail at young@actuary.org

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