

September 18, 2006

To: All Local Presidents – All Units
From: Kristie Darling, CWA Representative
Subj: 2006 Pension Protection Act

VP Rosen asked that I send out highlights of the new Pension Protection Act of 2006.

I have worked with Bob Patrician/CWA Research and have enclosed them.

While I don't have all of our represented companies finances [in terms of pension plan funding], nor do I have all of the contract language to determine current methodology used for calculating lump sums or even if your contract allows for the lump sum option; I have tried to [generally] highlight the most questioned pieces of the new legislation [which is 907 pages long].

I hope this helps you answer questions.

P.S.: The number of large companies providing retiree health care dropped by approximately one half [66% to 34%] between 1988 and 2002. Meanwhile most companies that do provide benefits have shifted part of the cost to retirees. [Economic Policy Institute] A conservative estimate that does not include long term care and assumes only a 7% annual increase in premiums – estimates: A 65 year-old w/o employer coverage would need \$164,000 in savings to cover medical expenses until 85 [includes Medigap & Part B premiums & out of pocket costs].

KD:mc
opeiu2

Attachment

cc: Seth Rosen, VP
Sal LaCause, AVP
D-4 Staff
State Benefit Reps
Billy Floyd, RMC President

2006 Pension Protection Act

Brief Summary

- **Effective 2008.**
- **Funding**
 - Requires Companies to fully fund pension plans.
 - Eliminates lump sum only IF plan is severely under-funded.
 - Most of CWA's major employers are far better funded & should not face this issue: Verizon, SBC/ATT Midwest, GM, Lucent, Gen'l Electric.
 - Others/not funded as well will benefit from extended time to make up the funds.
- **Calculation of Lump Sums**
 - Creates MINIMUM methodology to Calculate Lump Sums.
 - Is acceptable to pay larger amounts as long as they don't exceed law limitations.
 - GATT** = 30-year Treasury Bond - Replaced by 3 segment Corporate Bond Rate [a composite interest rate or 3 segment yield curve].
 - Composite interest rate = rates for projected retirement years. Example:
Combination of rates in 1st 5 years after retirement, next 15 years, & beginning the 20th year after retirement.
 - New Composite interest rate method to phase in over 5 years beginning 2008:
2008 = 80% using the GATT rate & 20% corporate composite rate
2009 = 60% using the GATT rate & 40% corporate composite rate
2010 = 40% using the GATT rate and 60% corporate composite rate
2011 = 20% using the GATT rate and 80% corporate composite rate
2012 100% corporate composite rate used
- **Collective Bargaining Agreement Impact:**
 - Verizon, SBC/ATT Midwest: All have contracts with specific reference to using the GATT rate for lump sum calculations. These contractual formulas will NOT have to change as a result of this legislation.
 - The law requires others not using the GATT rate method of calculation to meet or exceed the amount calculated by the law. The comparative calc method would use the corporate composite method.
 - IF a CBA does not specify the use of GATT or refers to the IRS Section [417(e)] applicable interest rate; there may be a problem once the IRS Code is changed to reflect the new legislation. In that case the lump sum calc refers to the section defining minimum lump sums and the calc would be modified by the new legislation.

Notes: Corporate Bond rates generally run 1% higher than GATT.
The GATT rate will continue to be published by the Federal Reserve.