



Pension Protection Act of 2006

Summary of Key Provisions Affecting Multiemployer Defined Benefit Plans*

September 2006

** This summary is based on Cheiron's general interpretation of the Act as of September 2006. The Act is subject to interpretation through subsequent regulation and or technical corrections legislation which may affect the interpretations contained in this summary.*

Pension Protection Act 2006 (PPA)

- Background
- Modification to multiemployer funding rules
- Classification
 - Examples
- General timing
- General features of a “Rehabilitation Plan”
- General features of a “Funding Improvement Plan”
- Investment implications

Background

- Response to widespread under funding of defined benefit plans
- New funding rules for single employer plans
- Multiemployer funding rules modified
- Increased disclosure and reporting requirements
- Effective date for new rules is the plan year beginning in 2008 (generally)
 - However some advance planning should be made

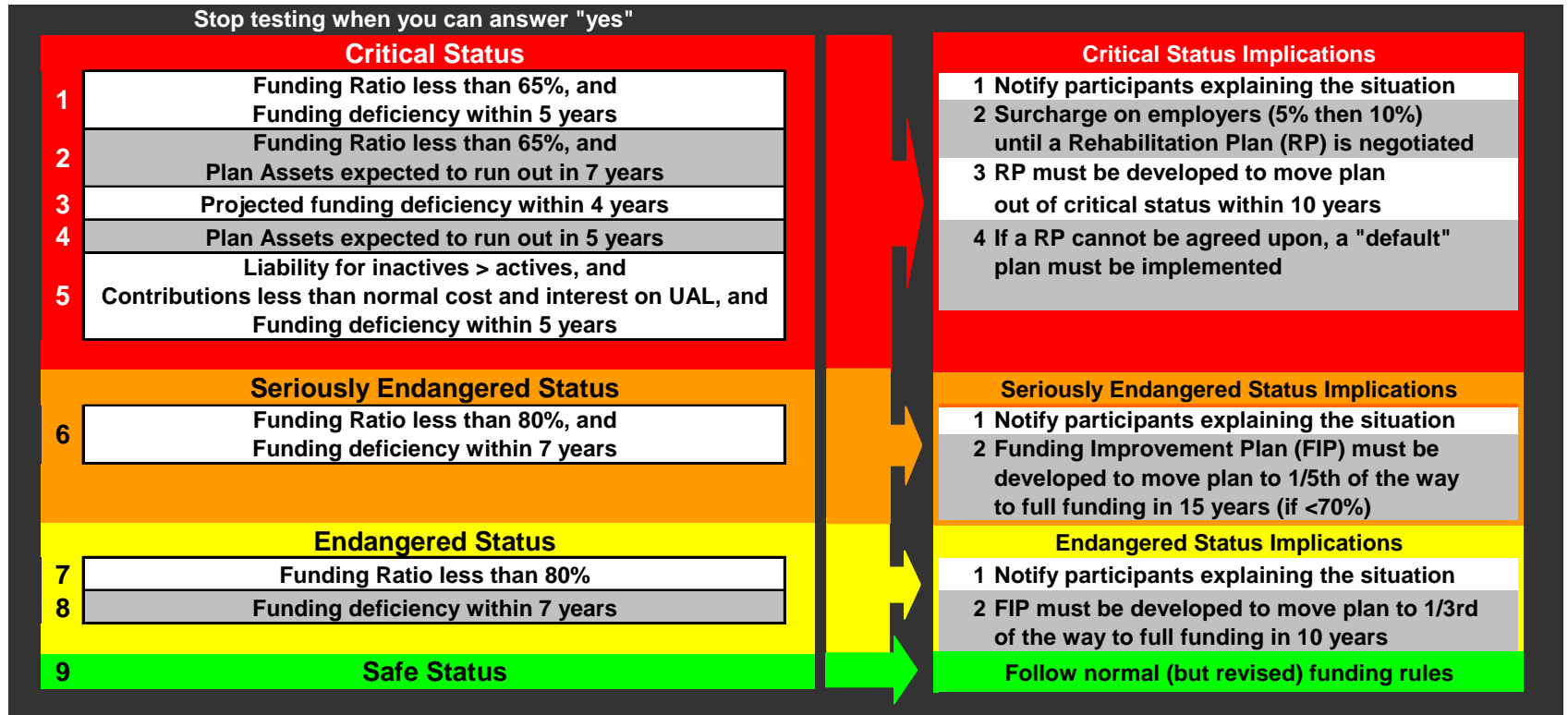
Modification to Multiemployer Funding Rules

- 15-year amortization of all changes in liability, faster recognition of
 - changes to plan provisions
 - assumption changes
- Short lived benefits (e.g. 13th checks) paid for over period paid
- Automatic 5-year extension of amortization periods, may ask IRS for an additional 5-year extension
- Reasonable assumptions

Classification / Status

- Actuarial certification of status required each plan year
 - Based on prior year's valuation
 - Includes projections
 - May be classified as
 - Critical
 - Seriously Endangered
 - Endangered
 - None of the above

Determination of Multi-Employer Plan Status Under Pension Protection Act of 2006



Classification / Status

- Funding ratio based on AVA / PVAB
- Impact of amortization extension in determining status
 - Automatic extensions – 431(d)
 - Take into account for endangered / seriously endangered
 - Ignored for critical
 - “Old” 412(e)
 - Silent
 - Technical corrections will likely exclude amortization extensions already granted under “old” 412(e)

General Timing

- Certification within 90 days (3/30/2008)
- Notification within 30 days of certification (4/29/2008)
- Rehabilitation Plan (RP) or Funding Improvement Plan (FIP) adopted within 240 days of certification date (11/25/2008)
- Presentation of schedule or schedules of changes to bargaining parties within 30 days of RP/FIP adoption
- RP/FIP adoption period, from certification to start of rehabilitation or funding improvement period (at latest 3/30/2008 to 1/1/2011)

General Timing

Rehabilitation / Funding Improvement Period

- Period starts with the plan year following earlier of
 - 2nd anniversary of adopting RP/FIP
 - Expiration of CBAs covering 75% of actives
- For 1/1/2008 plan year, period could be
 - 1/1/2011 to 12/31/2020 (Critical / Endangered)
 - 1/1/2011 to 12/31/2025 (Seriously Endangered)

General Features of Rehabilitation Plan (Critical)

- Objective
 - No projected funding deficiency in current or next nine years
- Provide bargaining parties with options that will accomplish RP
- Default RP
 - cut future accruals, maximum reduction on adjustable benefits
 - then contribution increases

General Features of Rehabilitation Plan (Critical)

- Surcharge on contributions prior to new labor contracts
 - 5% in first year
 - 10% after first year
 - No benefit accrual on surcharge contribution

General Features of Rehabilitation Plan (Critical)

- Allowable reductions to accrued benefits
 - Early retirement benefit or retirement subsidy
 - Any benefit option, except qualified joint and survivor
 - Any benefit increase adopted in last 5 years and not a PBGC guaranteed benefit
 - Notice of benefit reduction must be provided at least 30 days before effective date of reductions

General Features of Rehabilitation Plan (Critical)

- Benefit reductions not permitted
 - Any reduction in accrued benefit payable at normal retirement age
 - Any benefit in payment status when notice of “Critical” status is given

General Features of Rehabilitation Plan (Critical)

- Reduction in future benefit accruals
 - Accruals may be reduced but not below 1% of employer contributions

General Features of Rehabilitation Plan (Critical)

- After certification no CBA can
 - reduce level of contributions
 - suspend contributions
 - exclude younger or newly hired employees
- In addition, for rehabilitation period
 - No increase in fund's liabilities
 - No amendment inconsistent with RP
- Penalties for non-compliance

General Features of Rehabilitation Plan (Critical)

- Funding Standard Account deficiencies do not result in excise taxes provided employers are paying contributions according to RP

General Features of Funding Improvement Plan (Endangered)

- Objective
 - Seriously Endangered, get 20% closer to full funding over 15 years
 - Endangered, get 33% closer to full funding over 10 years
 - Funding improvement plan to be negotiated by bargaining parties

General Features of Funding Improvement Plan (Endangered)

- During funding improvement period
 - No CBA or participation agreement may contain
 - Reduction in level of contributions
 - Suspension of contributions
 - New or indirect exclusion of younger or newly hired employees
 - No amendment may increase fund's liabilities
 - Penalties for non-compliance

General Features of Funding Improvement Plan (Endangered)

- Accrued benefits protected (unlike critical)
- Reduction in future benefit accruals
 - Accruals may be reduced but not below 1% of employer contributions

Investment Implications under PPA

The significance of year to year volatility in investment performance will become a far greater concern for all defined benefit plan sponsors