Relieving The Pension Tension

By Reg P. Wydeven
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One of the greatest thrills of my life was working with my dad. Our offices were right next to each other, and in between appointments I would seek his counsel about client conundrums, staffing issues or the Badgers' quarterback woes.

The day he retired was bittersweet for me - I was losing a great mentor and friend at the office, but I was also excited for his well-deserved break after practicing for 40 years. While he still comes in almost every day for a few minutes to check up on me, he's having a great time working out at the YMCA, going to every Badger home basketball and football game and playing with his grandkids.

My parents worked very hard during the years they were employed and they saved their money just so they would now have the opportunity to enjoy their retirement as they do. Unfortunaetly, not all retirees are so lucky.

Because of the stock market sky dive earlier this decade, corporate scandals like the one involving Enron and the uncertainty of Social Security, last month President Bush signed the most sweeping pension reform bill in more than 30 years.

When asked to sum up the new law, Bush warned America's corporations: "Set aside enough money now." The bill is designed to relieve the pressure on the Pension Benefit Guaranty Corp., the federal agency that insures pension plans. The agency, which is funded by company-paid premiums and interest earnings, currently has a deficit of $22.8 billion.

The bill aims to bolster traditional defined-benefit plans, which pay retired employees a fixed monthly benefit. Approximately 30,000 of these employer-managed defined-benefit plans are underfunded by an estimated $450 billion. This makes the folks in the Pension Benefit Guaranty Corp. sweat, for as a government agency, taxpayers may have to pick up these companies' slack.

The new bill requires the plans that are underwater to reach 100% funding in seven years, an increase from the prior 90% requirement. Companies labeled as "at risk" must catch up at a faster rate or face certain restrictions, such as a ban on increasing benefits.

Individual taxpayers are also encouraged to save for their retirement. The new bill will allow employees to contribute more dollars to their personal retirement savings accounts, such as IRAs and 401(k)s. Further, employers are encouraged to automatically enroll employees in 401(k) plans, and now, non-spousal beneficiaries of 401(k)s can stretch withdrawals over their lifetime instead of receiving a lump sum distribution. Finally, financial firms will be given more liberties when offering advice to individual taxpayers on how to best save for retirement.

Detractors of the bill concede that even though the new provisions encourage companies to save for their employees' retirement, the law has no teeth. Nothing in the bill prevents employers from freezing their pensions.

The biggest reason for the Pension Benefit Guaranty Corp.'s deficit is from having to bail out airlines' plans. Because of this, struggling airlines were singled out in the bill. Airlines that have filed for bankruptcy whose plan have been frozen will receive an extra 10 years to meet their funding obligations. In addition, defense contractors received a 3-year grace period before being required to comply with the new pension funding rules because government contracts aren't flexible enough to address sudden spikes in pension costs.

With these new rules, hopefully everyone will be able to enjoy their retirement as much as my dad.