

PRESENTATION TO:

IBEW Telecommunications Conference

# **THE PENSION PROTECTION ACT**

## ***How Will It Affect Lump Sum Calculations***

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***What Does the Pension Protection Act Say?***

## Pension Protection Act: WHAT DOES IT DO

- It has established new interest rate guidelines to determine the minimum benefit payment an employee must receive; however companies may continue to use rates that result in a higher benefit.
- Provides for the use of an updated Mortality Table, the RP-2000.

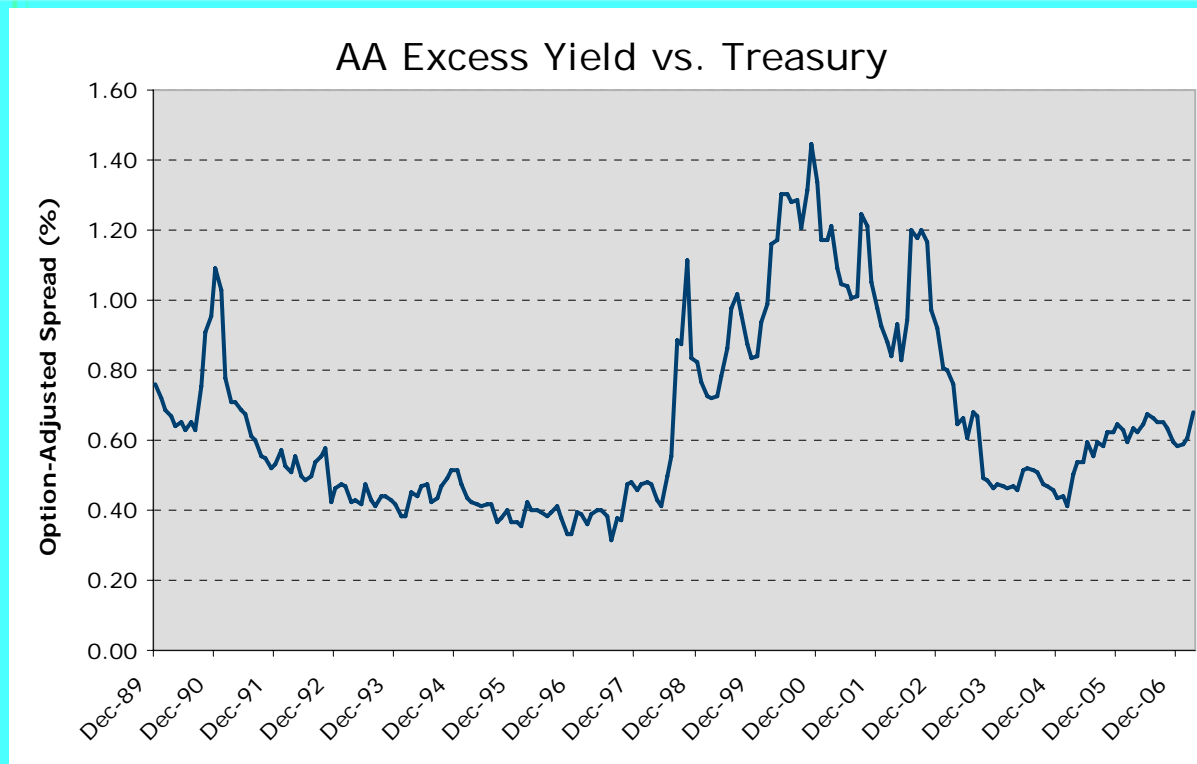
# Pension Protection Act of 2006

## Lump Sum Distributions

- Phase-In of New Interest Rate Assumptions
- **Calendar Year Interest Rate Components Method**
- 2006 100% 30-Year Treasury 30-Year Treasury
- 2007 100% 30-Year Treasury 30-Year Treasury
- 2008 20% Corp Bond Yield Curve + 80% 30-Year Treasury Mixed Rate
- 2009 40% Corp Bond Yield Curve + 60% 30-Year Treasury Mixed Rate
- 2010 60% Corp Bond Yield Curve + 40% 30-Year Treasury Mixed Rate
- 2011 80% Corp Bond Yield Curve + 20% 30-Year Treasury Mixed Rate
- 2012 and after 100% Corp Bond Yield Curve Method

# RATES

The difference between the Treasury and AA Corporate Rates as of December 31, 2006 is between 60 – 80 bps.



# GUIDELINES AND MORTALITY TABLE

- No IRS guidelines have been issued yet on how to make the calculation.
- The new mortality table (RP-2000) typically will increase benefits by 5% to 7% for men and decrease them by 2% to 3% for women as compared to the GAM 83.

*(Verizon currently uses the GAM 83 mortality table and AT&T uses the GAR 94 mortality table)*

***HOW DOES MY COLLECTIVE BARGAINING  
AGREEMENT (CBA) PLAY A ROLE?***

## COLLECTIVE BARGAINING AGREEMENT

- Your CBA and its language protects you and your members until the end of your contract.
- The Verizon CBA outlines the following for calculating lump sums:

The CBA states that an employee will receive the higher benefit resulting from one of the two calculations:

1. *GATT rate using GAM 83 mortality table.*
2. *120% of the PBGC rate using the UP 84 mortality table*

The CBA (for Verizon South adds *“in addition to any legally mandated interest rate and mortality table set forth in Section 417(e) of the Internal Revenue Code.”*

***WHAT SHOULD YOU KEEP IN MIND WHEN  
BARGAINING YOUR NEXT CONTRACT?***

# BARGAINING SUGGESTIONS

- Bargain for no change in the rate calculations.
- Companies are not required by the PPA to change the rate and can still continue to use rates that will provide a higher benefit.
- **Best Outcome Scenario:** Using an interest rate that will produce the highest benefit in conjunction with the most current mortality table (RP-2000).
- For companies who use multiple rate methods and mortality tables, keep (or add) language that states “the calculation of the lump-sum cash out for an eligible employee who separates service shall be based on the highest benefit of the amounts determined by the permissible factors used.”

# SUMMARY

- **Don't let your members retire this year only because of the PPA. Communicate with them.**
- **Tell your members the only reason they are protected is because of the CBA. Take credit!**
- **Between now and your negotiations, more information will be available. We can report on this again at the fall conference.**