

108TH CONGRESS
1ST SESSION

S. 1550

To change the 30-year treasury bond rate to a composite corporate rate,
and to establish a commission on defined benefit plans.

IN THE SENATE OF THE UNITED STATES

JULY 31 (legislative day, JULY 21), 2003

Mr. GREGG introduced the following bill; which was read twice and referred
to the Committee on Finance

A BILL

To change the 30-year treasury bond rate to a composite
corporate rate, and to establish a commission on defined
benefit plans.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Pension Stability Act”.

5 **SEC. 2. INTEREST RATES USED FOR PENSION PLANS; COM-**
6 **MISSION ON DEFINED BENEFIT PLANS.**

7 (a) REPLACEMENT OF INTEREST RATE ON 30-YEAR
8 TREASURY SECURITIES WITH INTEREST RATE ON CON-
9 SERVATIVELY-INVESTED LONG-TERM CORPORATE
10 BONDS.—

1 (1) INTERNAL REVENUE CODE OF 1986.—

2 (A) IN GENERAL.—Section
3 412(b)(5)(B)(ii) of the Internal Revenue Code
4 of 1986 is amended—

5 (i) in subclause (I)—

6 (I) by striking “subclause (II)”
7 and inserting “subclauses (II) and
8 (III)”;

9 (II) by striking “10 percent
10 above”; and

11 (III) by striking “the rates of in-
12 terest on 30-year Treasury securities”
13 and inserting “conservative long-term
14 corporate bond rates”; and

15 (ii) by adding at the end the fol-
16 lowing:

17 “(III) SPECIAL RULE.—In the
18 case of plan years beginning in 2004
19 and 2005, subclause (I) shall be ap-
20 plied by substituting ‘which is not
21 more than 5 percent above’ for ‘which
22 is not more than’.”

23 (B) CONSERVATIVE LONG-TERM COR-
24 PORATE BOND RATES.—Section 412(b)(5) of

1 such Code is amended by adding at the end the
2 following new subparagraph:

3 “(C) CONSERVATIVE LONG-TERM COR-
4 PORATE BOND RATES.—The Secretary shall, by
5 regulation, prescribe a method for periodically
6 determining the conservative long-term cor-
7 porate bond rates for purposes of this para-
8 graph. Such rates shall reflect rates of interest
9 on amounts conservatively invested in long-term
10 corporate bonds and shall be based on the use
11 of 2 or more indices, provided such indices are
12 in the top 2 quality levels available reflecting
13 average maturities of 20 years or more.”

14 (C) AMENDMENT REFLECTING THE
15 CHANGE IN THE INTEREST RATE CALCULA-
16 TION.—Section 412(b)(5)(B)(iii)(II) of such
17 Code is amended to read as follows:

18 “(II) consistent with the annual
19 rate of return with respect to amounts
20 conservatively invested in long-term
21 corporate bonds.”

22 (D) ELIMINATION OF CORRIDOR.—Section
23 412(l)(7)(C) of such Code is amended by strik-
24 ing clause (i) and inserting the following:

1 “(i) INTEREST RATE.—The rate of in-
 2 terest used to determine current liability
 3 under this subsection shall be the rate of
 4 interest used under subsection (b)(5).”

5 (E) DETERMINATION OF PRESENT
 6 VALUE.—

7 (i) IN GENERAL.—Section
 8 417(e)(3)(A)(ii)(II) of such Code is
 9 amended to read as follows:

10 “(II) APPLICABLE INTEREST
 11 RATE.—The term ‘applicable interest
 12 rate’ means an annual rate of interest
 13 equal to the conservative long-term
 14 corporate bond rate (as determined
 15 under section 412(b)(5)(C)) for the
 16 month before the date of distribution
 17 or such other time as the Secretary
 18 may by regulations prescribe.”

19 (ii) LIMITATION ON CERTAIN ASSUMP-
 20 TIONS.—Section 415(b)(2)(E)(ii) of such
 21 Code is amended by striking “the applica-
 22 ble interest rate (as defined in section
 23 417(e)(3))” and inserting “5.5 percent”.

24 (iii) PHASE IN OF INTEREST RATE ON
 25 LONG-TERM CORPORATE BONDS.—Section

1 417(e)(3) of such Code is amended by add-
 2 ing at the end the following:

3 “(C) RULES FOR PHASE IN OF INTEREST
 4 RATE ON LONG-TERM CORPORATE BONDS.—

5 “(i) IN GENERAL.—In the case of a
 6 plan year specified in the table in clause
 7 (ii), the applicable interest rate under sub-
 8 paragraph (A)(ii)(II) shall be the lower
 9 of—

10 “(I) such applicable interest rate
 11 (without regard to this subpara-
 12 graph); or

13 “(II) the 30-year Treasury secu-
 14 rities rate plus the applicable percent-
 15 age of the excess of such applicable
 16 interest rate (without regard to this
 17 subparagraph) over the 30-year
 18 Treasury securities rate.

19 “(ii) APPLICABLE PERCENTAGE.—For
 20 purposes of clause (i), the applicable per-
 21 centage shall be determined in accordance
 22 with the following table:

“Plan year beginning in calendar year:	Applicable percentage:
2004	0
2005	0
2006	20
2007	40
2008	60.

1 “(iii) SPECIAL RULE FOR COLLEC-
 2 TIVELY BARGAINED PLANS.—In the case of
 3 a plan maintained pursuant to 1 or more
 4 collective bargaining agreements between
 5 employee representatives and 1 or more
 6 employers ratified by the date of enact-
 7 ment of this subparagraph, in lieu of the
 8 5 calendar years specified in clause (ii), the
 9 years corresponding to the applicable per-
 10 centages in clause (ii) shall be the first 5
 11 years to which clause (i) applies to employ-
 12 ees covered by any such agreement. This
 13 clause shall only apply to such employees.”

14 (2) EMPLOYEE RETIREMENT INCOME SECURITY
 15 ACT OF 1974.—

16 (A) IN GENERAL.—Section
 17 302(b)(5)(B)(ii) of the Employee Retirement
 18 Income Security Act of 1974 (29 U.S.C.
 19 1082(b)(5)(B)(ii)) is amended—

20 (i) in subclause (I)—

21 (I) by striking “subclause (II)”
 22 and inserting “subclauses (II) and
 23 (III)”;

24 (II) by striking “10 percent
 25 above”; and

1 (III) by striking “the rates of in-
2 terest on 30-year Treasury securities”
3 and inserting “conservative long-term
4 corporate bond rates”; and
5 (ii) by adding at the end the fol-
6 lowing:

7 “(III) SPECIAL RULE.—In the
8 case of plan years beginning in 2004
9 and 2005, subclause (I) shall be ap-
10 plied by substituting ‘which is not
11 more than 5 percent above’ for ‘which
12 is not more than’.”

13 (B) CONSERVATIVE LONG-TERM COR-
14 PORATE BOND RATES.—Section 302(b)(5) of
15 such Act (29 U.S.C. 1082(b)(5)) is amended by
16 adding at the end the following new subpara-
17 graph:

18 “(C) CONSERVATIVE LONG-TERM COR-
19 PORATE BOND RATE.—The Secretary of the
20 Treasury shall, by regulation, prescribe a meth-
21 od for periodically determining conservative
22 long-term corporate bond rates for purposes of
23 this paragraph. Such rates shall reflect rates of
24 interest on amounts conservatively invested in
25 long-term corporate bonds and shall be based

1 on the use of 2 or more indices, provided such
2 indices are in the top 2 quality levels available
3 reflecting average maturities of 20 years or
4 more.”

5 (C) AMENDMENT REFLECTING THE
6 CHANGE IN THE INTEREST RATE CALCULA-
7 TION.—Section 302(b)(5)(B)(iii)(II) of such
8 Act (29 U.S.C. 1082(b)(5)(B)(iii)(II)) is
9 amended to read as follows:

10 “(II) consistent with the annual
11 rate of return with respect to amounts
12 conservatively invested in long-term
13 corporate bonds.”

14 (D) ELIMINATION OF CORRIDOR.—Section
15 302(d)(7)(C) of such Act is amended by strik-
16 ing clause (i) and inserting the following:

17 “(i) INTEREST RATE.—The rate of in-
18 terest used to determine current liability
19 under this subsection shall be the rate of
20 interest used under subsection (b)(5).”

21 (E) DETERMINATION OF PRESENT
22 VALUE.—

23 (i) IN GENERAL.—Section
24 205(g)(3)(A)(ii)(II) of such Act (29 U.S.C.

1 1055(g)(3)(A)(ii)(II) is amended to read
2 as follows:

3 “(II) APPLICABLE INTEREST
4 RATE.—The term ‘applicable interest
5 rate’ means an annual rate of interest
6 equal to the conservative long-term
7 corporate bond rate (as determined
8 under section 302(b)(5)(C)) for the
9 month before the date of distribution
10 or such other time as the Secretary
11 may by regulations prescribe.”

12 (ii) PHASE IN OF INTEREST RATE ON
13 LONG-TERM CORPORATE BONDS.—Section
14 205(g)(3) of such Act (29 U.S.C.
15 1055(g)(3)) is amended by adding at the
16 end the following:

17 “(C) RULES FOR PHASE IN OF INTEREST
18 RATE ON LONG-TERM CORPORATE BONDS.—

19 “(i) IN GENERAL.—In the case of a
20 plan year specified in the table in clause
21 (ii), the applicable interest rate under sub-
22 paragraph (A)(ii)(II) shall be the lower
23 of—

1 “(I) such applicable interest rate
2 (without regard to this subpara-
3 graph); or

4 “(II) the 30-year Treasury secu-
5 rities rate plus the applicable percent-
6 age of the excess of such applicable
7 interest rate (without regard to this
8 subparagraph) over the 30-year
9 Treasury securities rate.

10 “(ii) APPLICABLE PERCENTAGE.—For
11 purposes of clause (i), the applicable per-
12 centage shall be determined in accordance
13 with the following table:

“Plan year beginning in calendar year:	Applicable percentage:
2004	0
2005	0
2006	20
2007	40
2008	60.

14 “(iii) SPECIAL RULE FOR COLLEC-
15 TIVELY BARGAINED PLANS.—In the case of
16 a plan maintained pursuant to 1 or more
17 collective bargaining agreements between
18 employee representatives and 1 or more
19 employers ratified by the date of enact-
20 ment of this subparagraph, in lieu of the
21 5 calendar years specified in clause (ii), the
22 years corresponding to the applicable per-

1 centages in clause (ii) shall be the first 5
 2 years to which clause (i) applies to employ-
 3 ees covered by any such agreement. This
 4 clause shall only apply to such employees.”

5 (F) PBGC PREMIUM RATES.—Section
 6 4006(a)(3)(E)(iii)(II) of such Act (29 U.S.C.
 7 1306(a)(3)(E)(iii)(II)) is amended—

8 (i) in the first sentence, by striking
 9 “the annual yield on 30-year Treasury se-
 10 curities” and inserting “the annual rate of
 11 interest equal to the long-term corporate
 12 bond rate (as determined under section
 13 302(b)(5)(C))”; and

14 (ii) by striking the second sentence.

15 (b) COMMISSION.—

16 (1) ESTABLISHMENT OF THE COMMISSION.—

17 (A) ESTABLISHMENT.—There is estab-
 18 lished the Commission on Defined Benefit Pen-
 19 sion Plans (in this Act referred to as the
 20 “Commission”).

21 (B) MEMBERSHIP.—

22 (i) COMPOSITION.—The Commission
 23 shall be composed of 13 members of
 24 whom—

1 (I) 1 shall be the Secretary of
2 Labor or their designee;

3 (II) 1 shall be the Secretary of
4 the Treasury or their designee;

5 (III) 1 shall be the Executive Di-
6 rector of the Pension Benefit Guar-
7 anty Corporation;

8 (IV) 2 shall be appointed by the
9 President from among members of the
10 general public;

11 (V) 1 shall be appointed by the
12 chairman of the Committee on
13 Health, Education, Labor, and Pen-
14 sions of the Senate;

15 (VI) 1 shall be appointed by the
16 ranking minority member of the Com-
17 mittee on Health, Education, Labor,
18 and Pensions of the Senate;

19 (VII) 1 shall be appointed by the
20 chairman of the Committee on Fi-
21 nance of the Senate;

22 (VIII) 1 shall be appointed by
23 the ranking minority member of the
24 Committee on Finance of the Senate;

1 (IX) 1 shall be appointed by the
2 chairman of the Committee on Edu-
3 cation and the Workforce of the
4 House of Representatives;

5 (X) 1 shall be appointed by the
6 ranking minority member of the Com-
7 mittee on Education and the Work-
8 force of the House of Representatives;

9 (XI) 1 shall be appointed by the
10 chairman of the Committee on Ways
11 and Means of the House of Rep-
12 resentatives; and

13 (XII) 1 shall be appointed by the
14 ranking minority member of the Com-
15 mittee on Ways and Means of the
16 House of Representatives.

17 (C) PERIOD OF APPOINTMENT; VACAN-
18 CIES.—Members shall be appointed for the life
19 of the Commission. Any vacancy in the Com-
20 mission shall not affect its powers, but shall be
21 filled in the same manner as the original ap-
22 pointment.

23 (D) QUORUM.—A majority of the members
24 of the Commission shall constitute a quorum,

1 but a lesser number of members may hold hear-
2 ings.

3 (E) CHAIRPERSON AND VICE CHAIR-
4 PERSON.—The Commission shall select a Chair-
5 person and Vice Chairperson from among its
6 members.

7 (2) DUTIES OF THE COMMISSION.—

8 (A) STUDY AND RECOMMENDATIONS.—
9 The Commission shall conduct a thorough study
10 of, and shall develop recommendations on, the
11 following issues relating to defined benefit pen-
12 sion plans:

13 (i) How to reform the defined benefit
14 pension plan funding rules to increase par-
15 ticipants' benefit security, provide rational
16 and predictable funding rules for employ-
17 ers, and protect the financial independence
18 of the Pension Benefit Guaranty Corpora-
19 tion.

20 (ii) The relevance and effectiveness of
21 the current liability rules, and, if such
22 rules are maintained, an analysis of alter-
23 native valuation measures for those rules,
24 including the rationale for the measures as
25 well as their strengths and weaknesses.

1 (iii) The appropriate interest rates
2 that should be used in valuing plan liabil-
3 ities, the variable rate premium, and lump-
4 sum benefits, including whether the rates
5 proposed are transparent, widely under-
6 stood, publicly available, and resistant to
7 manipulation.

8 (iv) Whether the recommended inter-
9 est rate would impact the investment policy
10 of the pension trust along with an analysis
11 of the impact on capital markets, the cost
12 of maintaining a pension plan over the
13 long term, and the compatibility of the rec-
14 ommended funding profile with the Em-
15 ployee Retirement Income Security Act of
16 1974 requirement to diversify investments.

17 (v) The appropriate mortality assump-
18 tions that should be used in valuing plan
19 liabilities.

20 (vi) Whether such assumptions should
21 contain a collar adjustment or should oth-
22 erwise be adjusted to reflect the workforce
23 covered by the plan.

1 (vii) A consideration of other actuarial
2 assumptions used in valuing plan liabil-
3 ities.

4 (viii) Whether the same interest rate
5 should be used for purposes of both fund-
6 ing and lump sum benefits, including con-
7 sideration of the effect on plan funding
8 and other purposes for which the interest
9 rate is used if such rate is different for
10 those purposes.

11 (ix) The effect of the interest rate on
12 participants' decisions whether to elect
13 lump sum benefits.

14 (x) The appropriate means of pro-
15 viding transition protection to participants
16 in the event changes are enacted.

17 (xi) Whether the same interest rate
18 used for funding purposes should also
19 apply for other purposes for which the rate
20 of interest on 30-year Treasury securities
21 is currently used.

22 (xii) The need to avoid volatile fund-
23 ing obligations and how to reform the law
24 to avoid such volatility, including volatility
25 attributable to the recent downturn in the

1 equity markets and significant decrease in
2 interest rates.

3 (xiii) The need for predictability, sim-
4 plicity, and transparency with respect to
5 the calculation of funding obligations, and
6 how to reform the law to achieve such
7 goals.

8 (xiv) Effective means that would allow
9 additional funding in favorable economic
10 periods, so that funding levels can with-
11 stand market downturns without requiring
12 large contributions during adverse eco-
13 nomic conditions.

14 (xv) How to design transition rules so
15 that funding reforms do not cause short-
16 term hardships for employers or employ-
17 ees.

18 (xvi) How to ensure that required dis-
19 closure of funding information is material
20 and relevant without requiring disclosures
21 that impose disclosure requirements that
22 are unnecessarily burdensome, are mis-
23 leading with respect to the funded status
24 of an ongoing plan, or are not adjusted to
25 reflect the size of the plan.

1 (xvii) Other funding and benefit re-
2 forms that would promote the creation and
3 expansion of defined benefit plans.

4 (B) REPORT.—Not later than December
5 31, 2006, the Commission shall submit a report
6 to the appropriate committees of Congress con-
7 taining a detailed statement of the findings and
8 conclusions of the Commission, together with
9 its recommendations for such legislation as it
10 considers appropriate.

11 (3) POWERS OF THE COMMISSION.—

12 (A) HEARINGS.—The Commission may
13 hold such hearings, sit and act at such times
14 and places, take such testimony, and receive
15 such evidence as the Commission considers ad-
16 visable to carry out this Act. The Commission
17 shall, to the maximum extent possible, use ex-
18 isting data and research prior to holding such
19 hearings.

20 (B) INFORMATION FROM FEDERAL AGEN-
21 CIES.—The Commission may secure directly
22 from any Federal department or agency such
23 information as the Commission considers nec-
24 essary to carry out this Act. Upon request of
25 the Chairperson of the Commission, the head of

1 such department or agency shall furnish such
2 information to the Commission.

3 (C) POSTAL SERVICES.—The Commission
4 may use the United States mails in the same
5 manner and under the same conditions as other
6 departments and agencies of the Federal Gov-
7 ernment.

8 (4) COMMISSION PERSONNEL MATTERS.—

9 (A) COMPENSATION; TRAVEL EXPENSES.—
10 Each member of the Commission shall serve
11 without compensation but shall be allowed trav-
12 el expenses, including per diem in lieu of sub-
13 sistence, at rates authorized for employees of
14 agencies under subchapter I of chapter 57 of
15 title 5, United States Code, while away from
16 their homes or regular places of business in the
17 performance of services for the Commission.

18 (B) STAFF AND EQUIPMENT.—The De-
19 partment of the Treasury shall provide all fi-
20 nancial, administrative, and staffing require-
21 ments for the Commission including—

22 (i) office space;

23 (ii) furnishings; and

24 (iii) equipment.

1 (5) TERMINATION OF THE COMMISSION.—The
2 Commission shall terminate 90 days after the date
3 on which the Commission submits its report under
4 paragraph (2)(B).

5 (c) EFFECTIVE DATES.—

6 (1) IN GENERAL.—Except as provided in para-
7 graphs (2) and (3), the amendments made by this
8 section shall apply to years beginning after Decem-
9 ber 31, 2003.

10 (2) LOOKBACK RULES.—For purposes of apply-
11 ing all applicable lookback rules in years beginning
12 on or after the otherwise applicable effective date de-
13 termined under paragraph (1) or (3), the amend-
14 ments made by this section may be applied as if
15 such amendments had been in effect for all years be-
16 ginning before such effective date. For purposes of
17 this paragraph, a lookback rule is a rule that uses
18 data from a prior year in determining requirements
19 applicable to the current year.

20 (3) COLLECTIVE BARGAINING AGREEMENTS.—
21 Except as provided in paragraph (2), in the case of
22 a plan maintained pursuant to 1 or more collective
23 bargaining agreements between employee representa-
24 tives and 1 or more employers ratified by the date
25 of the enactment of this Act, the amendments made

1 by this Act to section 417(e)(3) of the Internal Rev-
2 enue Code of 1986 and to section 205(g)(3) of the
3 Employee Retirement Income Security Act of 1974
4 (29 U.S.C. 1055(g)(3)), and for purposes of section
5 411(a)(11)(B) of the Internal Revenue Code of 1986
6 and section 203(e)(2) of the Employee Retirement
7 Income Security Act of 1974 (29 U.S.C.
8 1053(e)(2)), shall not apply to employees covered by
9 any such agreement for plan years beginning before
10 the earlier of—

11 (A) the later of—

12 (i) the date on which the last of such
13 collective bargaining agreements termi-
14 nates (determined without regard to any
15 extension thereof on or after such date of
16 enactment); or

17 (ii) January 1, 2006; or

18 (B) January 1, 2008.

19 (d) TERMINATION DATE.—None of the amendments
20 made by this section shall apply to plan years beginning
21 after December 31, 2008.

○