

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.

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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

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## 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:

<b>“Plan year beginning in calendar year:</b>	<b>Applicable percentage:</b>
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:

<b>“Plan year beginning in calendar year:</b>	<b>Applicable percentage:</b>
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.

○