

Communications
Workers of America
AFL-CIO, CLC

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Via Email

February 1, 2007

TO: All CWA District 7 Local Officers
FROM: Reed Roberts, Administrative Assistant to the Vice President
SUBJECT: H.R. 4, the Pension Protection Act of 2006 (PPA)

Attached is the analysis of this prepared by Bob Patrician, Research Economist at CWA Headquarters giving a brief explanation of the pension legislation adopted in 2006.

We understand that the Locals are getting a number of inquiries from their members that the PPA will require some changes to our Pension Plan. These concerns primarily are with those units that allow 'lump sum' distributions in that the PPA will force a reduction in the amounts paid.

Lump sums are calculated on the basis of an amount provided under the Plan. Under the Qwest Plan for example, the lump sum distribution is equal to ten years of annuity payments (the monthly pension amount x 12 x 10). The calculation then takes into account the 30-year Treasury rate. Under this preexisting formula, the higher the interest rate, the lower the lump sum distribution. The rationale for this is that the higher the interest rate, the higher the return on investments, so the lower the lump. When interest rates are low, the return on investments is lower, the lump is bigger.

The Pension Protection Act of 2006 was aimed at those employers whose Pension Plans were under-funded and has little to no effect on our existing pension plans in telecommunications. It does mean a lot for our members in the airline industry who were impacted by the defaulting and bankruptcy of some of those major employers. As Bob notes in his analysis:

“For a plan which is in financial trouble such an immediate payout could have negative consequences for the ongoing health of the plan. The legislation would prevent plans which are severely under-funded from paying out lump sum distributions.

The proposal would also make some changes to the part of the law which governs the calculation of lump sums. Under current law, “a plan’s lump sum payment to a participant or beneficiary must be no less than the present value of the annuity to which the participant or beneficiary would have been entitled. For this calculation, the plan must use specified interest and mortality assumptions.”

Under the new legislation, the calculation of this minimum lump sum amount must use a “three-segment yield curve” of corporate bond rates to determine the interest rate to be used. As a rule of thumb, corporate bond rates have generally run about one percentage point higher than the 30-year Treasury bond rate.”

A second question has to do with any change to current Plan calculations. Again using the Qwest Plan as an example, the 30-year Treasury rate is the basis for these calculations. Mr. Patrician’s memo addresses this as well:

“...the most critical fact about the calculation of lump sum distributions is that the new law sets the methodology for calculating the minimum amount. It is perfectly acceptable for a pension plan to pay a larger amount, as long as that amount does not exceed the limitation established in Section 303 of the proposal.”

The law does not require that the contractual formulas negotiated with employers such as Qwest be changed as a result of the new legislation nor have any of our employers approached us about doing so, therefore our Plans continue as negotiated.

If you have any questions or concerns, please let us know.

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Attachment

C: District 7 Staff