

# The Pension Protection Act: **The Good, the Bad and the Ugly**

The misnamed “Pension Protection Act” of 2006 will go into effect in 2008.

Here is a summary the new law’s impact on Teamster members.

## **What are some positive aspects of the new law?**

There are more negatives than positives. On the positive side, it could make pensions more secure in several major ways.

First, it requires fund advisors to identify and fix problems proactively.

Second, the new law will require that fund trustees provide frequent and better information about the health of a fund and give participants more access to the fund’s actuarial and investment reports. TDU fought for this right.

The law could also rein in fund trustees who might adopt irresponsible interest rate assumptions (the rate at which fund assets are projected to grow) and actuarial assumptions (the rate of retirements, deaths and forfeitures at various benefit levels provided by the fund).

## **What about the negatives?**

There are many. The overall effect of the law will be to encourage policies that lead to full funding, sometimes at the expense of reasonable and affordable benefit improvements. Even if funds are not in endangered or critical status, employer trustees and fund managers will have an excuse for limiting improvements.

It may also have the long-term effect of discouraging some employers from either joining or maintaining defined benefit plans because it requires funds to move to full funding at a relatively fast pace. For example, the amortization period for changes in benefits and actuarial assumption is shortened from 30 to 15 years, putting pressure on the employer to pump more money into the fund in a shorter period of time.

## **The law describes funds as ‘endangered,’ ‘seriously endangered’ or ‘critical’ status. What do these mean?**

The provisions relating to “endangered” and “seriously endangered” status are the so-called “Yellow Zone” amendments to ERISA. Critical status is also called the “Red Zone.”

A plan is “endangered” if 1) it is 80 percent funded or less (note: Many Teamster funds will fall into this category) or 2) if there is a “funding deficiency” in the Funding Standard Account in the current year or one is projected in any of the next seven years. If a fund meets both criteria, it is “seriously endangered.”

A plan is in “critical” status if it is 60 percent funded or less *and* there is a funding deficiency or one is projected in the near term. A plan in the “Red Zone” can cut not only future benefits, but in some cases can even cut accrued pension benefits, a roll-back of a legal protection won over 20 years ago.



This fact sheet was produced by Teamsters for a Democratic Union (TDU). Thanks to attorney Ann Curry Thompson and the Pension Rights Center for help interpreting this law for Teamsters.

(313) 842-2600 ■ [www.tdu.org](http://www.tdu.org) ■ [info@tdu.org](mailto:info@tdu.org)

### What does all this mean for the largest Teamster Benefit Funds?

The Western Conference Fund is 100 percent funded, and none of this applies to it. They really have no excuse whatsoever for not restoring full benefit accrual. It is a glaring example of Teamster leaders allowing the employers to control pension fund policies.

The Central States Fund and the New England Fund will very likely be in the "Yellow Zone" (also called "endangered" status) because they are less than 80 percent funded.

A "Yellow Zone" Fund must develop a funding improvement plan. The union can bargain over its terms, so union leadership is critical to protecting members' interests.

In the case of Central States, the law actually provides some protection, in a strange way: the union trustees have already agreed to huge cuts in pension accrual, down to 1 percent of contributions. The law provides that no fund can ever pay less, so it is already at the legal minimum.

Also, a plan in the "Yellow Zone" cannot raise benefits until its funding level improves. This makes it critically important to bargain increased employer contributions, bring part-time UPSers and UPS Freight into the Central States Fund, and step up organizing as well.

A strong bargaining plan in the national contracts will be an



### TDU: Leading the Fight for Pension Justice

Teamster local officers and members converged on Capitol Hill to oppose the harmful aspects of the Pension Protection Act in a lobby day organized by TDU. While we were unsuccessful in defeating the legislation, TDU did win changes that give Teamsters access to more financial information about our funds.

important factor in ending pension accrual cuts, providing medical coverage to retirees, and protecting our pension plans.

The other key is leadership from union trustees, who hold 50 percent control of the funds, but have too often been lapdogs for the employers.

### How can I find out more about my own Fund?

One positive aspect of the new law is that funds will require that more detailed information be given to participants starting in 2008.

Presently the best single source of information is the annual "5500" form your pension fund must file. These forms are just

becoming available now, for the year 2005. And certain information, such as the funding level, is often for the beginning of the year, and thus about two years old by the time you see it.

These forms are available to any participant. Contact TDU for info on how to obtain them.

Contact TDU for more information:

(313) 842-2600  
info@tdu.org  
www.tdu.org

TDU  
PO Box 10128  
Detroit, MI 48210