

► **Potter's Side**

REGARDING MR. EICKELBERG'S one-sided critique of "Mr. Potter's 10-Point Plan to Save Pensionville" (September/October 2005), I would like to address a few of the points myself.

Potter's plan calls for the town council to almost double the cost of pension plan insurance, from \$19 for each pension plan occupant to \$30. In cases where the pension plan is financially weaker, Potter wants to strengthen it by forcing the owner to pay additional risk-based premiums, not to the plan, but to the PBGC.

As an enrolled actuary for many smaller plans, in addition to larger plans, I, too, am disappointed that many of the sponsors of the plans to which I provide services will be paying higher premiums. In fact, they have been paying fairly high premiums—and even variable rate premiums for benefits that aren't insured—when they pose little and sometimes no risk to



the PBGC. But the fact remains that the PBGC is severely underfunded and the money to make up the shortfall will have to come from somewhere. If not from the sponsors of defined benefit plans, then it will come from the taxpayers at large.


I believe the proposal requires financially weak sponsors potentially to pay additional risk-based premiums (not just those whose plans are financially weakened). In any case, under the proposal, there is always the option of fully funding the plan to avoid any risk-based premium. This is not always the case now.

Potter has asked the town council to limit all pension plan debt to a seven-year amortization term.

The current funding standard account rules allow for extremely long amortization of certain liabilities. So long, in fact, that many plans—especially so-called dollar-per-month plans—can follow these rules and be permanently and severely underfunded. Applying the additional funded charge rules from the Revenue Protection Act of 1994, however, tends to fund plans over four years and, even with the currently allowed smoothing of assets, no more than eight years. A change to a flat seven-year amortization should not be significant.

The 48-month rolling interest rate provides a lower debt payment for pension owners...

This is true now, but if long-term interest rates, were to rise for an extended period, the reverse would be true. The important point is that using a 48-month



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weighted-average interest rate for part of the funding calculation doesn't reflect the current value of the plan's liabilities and makes hedging them with cash-flow matched assets nearly impossible.

All pension plans should be reappraised annually.

This is also true now; annual valuations are required. The difference under the proposal is that a market-based interest rate will need to be used, rather than a potentially static, long-term interest rate, which can mask trouble for a long time.

Potter believes that addressing the PBGC's financial risk should come before any other obligations.... In the past, some owners avoided paying what they owed by declaring bankruptcy and dumping the pension on Potter. Now if that happens, Potter wants to be able to put a lien on the owner's assets. In this way, he can use the proceeds from the sale of the assets to

satisfy the unpaid contributions. He's not interested in being a creditor just like everybody else. Potter's plan... would require owners to post a large sign on their front lawns... to warn occupants and potential occupants that the resident pension plan's financial condition has deteriorated and that the plan is at risk of being condemned by the PBGC.

Pension plan benefits represent deferred wages. When an employer declares bankruptcy, any other unpaid wages are already at or near the front of the line for claims on assets. The deferred wages should be no different, especially since the plan participants and the PBGC can take no hedging actions against the sponsor's bankruptcy or creditworthiness, whereas other creditors can.

Potter's plan calls for the elimination of something called the "credit balance account."

The credit balance under the current funding rules is a fiction—an accounting gimmick, not real money. It certainly can't be used to pay benefits to plan beneficiaries, so why should a sponsor with an underfunded plan but with a credit balance pay a lower variable rate premium, or be required to fund less to its plan than a sponsor with a similarly underfunded plan without a credit balance?

After Potter and the administrators finished their remarks, a representative of the Pensionville residents, one George Bailey, came forward and asked to address the town council. He posed three simple questions:

First, could any member of the town council honestly imagine a new owner wanting to move into Pensionville with conditions as they are today, never mind if the PBGC's plan was approved?

Second, did the town council really think pension owners would stay in Pensionville if these ordinances became law?

Third, did the town council really believe that the PBGC's plan would save Pensionville? Or would it save the PBGC at the expense of the very people it was legally obligated to protect?

The current state of Pensionville is mostly due to the actions of sponsors, primarily by their betting on risky assets to fund bondlike obligations. The bet hasn't paid off, and it's still on the table. The PBGC was founded to insure against sponsor insolvency, not for market risk. Sponsors may decide to terminate their defined benefit plans with or without the proposed reform, but until the plans are fully funded and properly terminated, the PBGC is still on the hook for any shortfalls. It should be compensated fairly for the risk it's incurring.

While I understand Mr. Eickelberg's concerns, it would be better if all stake-holders were participants in crafting a solution to the current problems in Pensionville.

I am writing on my own behalf and not on behalf of my employer.

ANDREW C. MARTIN, LEOLA, PA.

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