

Pension Protection Act of 2006
Funding and Benefit Restrictions
(Effective 2008 or later)

Funding target attainment percentage ¹	Over 100%	100% ²	Between 100% and 80%	Less than 80% ³	Less than 60%
Funding	Target normal cost <i>minus</i> excess assets	Target normal cost	Target normal cost <i>plus</i> shortfall amortization charge	If less than 70% under at risk assumptions, at-risk funding ⁴	At risk funding ⁴
Credit balances available	Yes	Yes	Yes	No	No
Amendments increasing benefits or accelerating vesting	Yes	Yes	Yes	No (except in flat dollar plans to reflect increase in average wages) unless additional contribution or security ⁵	No (except in flat dollar plans to reflect increase in average wages) unless additional contribution or security ⁵
Benefit accruals	Yes	Yes	Yes	Yes	No, unless additional contribution or security ⁵
Shutdown and other unpredictable contingent benefits	Yes	Yes	Yes	Yes	No, unless additional contribution or security ⁵
Lump sums or annuity purchases	Yes	Yes	Yes unless in bankruptcy	Lesser of 50% of benefit or PBGC guarantee ⁵	No ⁵

¹ Funding target attainment percentage is the value of the plan’s benefits at the beginning of the plan year (“funding target”) divided by the plan’s assets. Funding target is determined using blend of corporate bond rates (AAA, AA and A rated), averaged over 24 months, using 3 different rates depending on when benefits are due: bonds maturing within 5 years; between years 5 and 20; and over 20 years. Assets determined using actuarial value of assets (2-year smoothing, 90-110% corridor) reduced by any credit balances (called “prefunding balance” for excess contributions made after the new rules are effective and “funding standard carryover balance” for the credit balance at the end of the last year under the old rules). Employer may elect to eliminate credit balances; credit balances automatically eliminated to the extent necessary to avoid benefit restrictions.

² For plans not subject to the deficit reduction contribution in 2007 (e.g., 90% funded for current liability), 100% funding target reduced: 92% for 2008, 94% for 2009, 96% for 2010. Must be above threshold in every year to retain transition. Credit balances NOT subtracted in determining funded percentage for thresholds.

³ Transition rule for 2008-10, at-risk threshold is 65% in 2008, 70% in 2009, 75% in 2010, 80% thereafter. In measuring at-risk threshold, funding standard carryover balance (i.e., credit balance at the end of the last year under the old rules) is not subtracted from assets. Treasury is to provide rules for estimating percentage for 2008.

⁴ At risk funding – all employees within 10 years of retirement are assumed to retire at the earliest age and are assumed to elect the most valuable benefit. If plan has been at risk in 2 of the preceding 4 years, funding target increased by 4% plus \$700 per participant. 5 year phase-in after hitting at-risk status (20% for each consecutive year); years before 2008 not taken into account. **Executives taxed if nonqualified benefits funded while DB plan is at risk (including rabbi trust); regular income tax plus 20% additional tax.**

⁵ For benefit restrictions, credit balances are subtracted from assets in determining fund target attainment percentage. Credit balances automatically eliminated to the extent necessary to avoid benefit restrictions.