Dr. Phil's Guide to Pension Funding Reform

Written with assistance from Mike Clark, E.A.

1. Introduction

One minute to air time for today's taping of the *Dr. Phil* show. Three guests shift uneasily in their chairs under the hot studio lights. On the left, representing the U.S. government, sits a dapper, tall gent wearing a blue coat, red striped pants, and a large, similarly colored top hat. On the right, representing employers, sits a CEO replete with power tie, expensive suit, and well-coiffed hair. Wedged uncomfortably in the middle sits the employee. She perches nervously, eyes darting between her two companions, knowing that something big is going on that affects her in some way, but she simply does not comprehend it.

Suddenly the lights increase. The music swells. An eager audience gives hearty applause as the lumbering Texan TV psychologist strides briskly on stage. He waits a moment for the crowd to settle, then speaks authoritatively in his trademark drawl:

> *Single-employer defined benefit plans are in crisis! Since 1985, the percentage of American workers covered by single-employer DB plans has dropped by over a third! The number of DB plans has dropped 75 percent over the same period, with most of the casualties being small plans.[1] The funding of those plans that still exist is not good. Benefit accrual freezes are silently sweeping the land! Many of those that have not yet frozen or terminated their plans have considered it at one point or another.*

The crowd groans in dismay. A woman in the front row daubs her reddened eyes with a tissue. Dr. Phil continues:

> *Minimum contribution requirements are volatile and unpredictable! There is almost no incentive for any rational business to maintain their DB plans, and the concept of a company starting up a new plan in today's environment is a joke! There are 14 characteristics of a serial failure, and the current DB funding system possesses at least nine of them! It is time to stop the madness!*

2. The Defined Benefit Crisis

It's too bad the DB crisis has not actually been a subject on *Dr. Phil.* It would be nice to solve our pension problems in an hour minus commercials. Maybe, however, the good doctor should consider doing an episode on this topic. Many of his programs (so I

[1] *PBGC Pension Insurance Data Book 2003.*

hear) focus on the consequences of bad parenting, and today's funding system in many ways resembles that phenomenon.

Using the bad-parenting metaphor, the government would play the role of the parent. The parent greatly wishes to get employers (who are the "problem children" in this model, but please don't read too much into that) to exhibit the behavior of sponsoring well-funded DB pension plans for the good of the rest of the family (the employees).

Unfortunately, the government has fallen into a model of bad parenting that almost guarantees that the behavior it desires cannot be attained. The overarching flaw in the current system is that it ignores a fundamental tenet of human nature. As Dr. Phil would probably tell you, "People tend to seek pleasure and avoid pain!" Today's funding structure relies on plan sponsors to behave in a manner that is contrary to this simple truth. In our bizzarro funding world, sponsors are assumed to contribute when it is not required, pay stiff additional funding charges without seeking to avoid them, and take responsibility for fully funding terminating plans when plan dumping is rewarded.

This bad-parenting model can be summarized in three steps:

- Rules of conduct are set too loosely to achieve desired behavior.
- Punishment for poor funding is unpredictable and severe.
- Problems caused by poor behavior are fixed by the parent.

Let's look at these steps individually.

2.1 Rules of Conduct Are Set Too Loosely to Achieve Desired Behavior

If the intent of funding regulations is to set a minimum contribution amount that will result in strongly funded plans, the tools chosen to accomplish this end are poorly suited for the job. Perhaps the largest obstacles placed in the path of responsible funding are the full funding limits and credit balance under IRC Section 412.

The full funding limit sets a mark above which contributions to a pension plan are not required. It is set equal to the greater of two measurements:

1. The plan's accrued liability minus the lesser of the market or actuarial value of assets

2. Ninety percent of the plan's current liability minus the actuarial value of assets.

In the former, the accrued liability is generally calculated by assuming a rather high interest rate, resulting in a lower limit. Congress attempted to address this by introducing the current liability full funding limit. This would be an acceptable concept except for the inexplicable decision to declare that 90 percent represents "full funding," which is a contradiction in terms. The effect of these full funding limits is to shut off mandatory contributions to a pension plan just before a position of funding strength is about to be reached. A rational funding method would reverse the order of these two events.

As you might expect, pleasure-seeking plan sponsors most often choose to contribute only up to the full funding limit when it is less than the regular minimum contribution. Thus they are technically following the rules, but are not reaching the ultimate goal of well-funded plans that the parents desire.

In some instances, sponsors will contribute more than the minimum and build credit balances. Although these credit balances may be established with a true forward-looking perspective to strengthen plan funding, experience has shown that they are more often the result of an attempt to avoid additional funding charges or additional minimum liability under FAS 132. Following pleasure-seeking instincts, however, credit balances are often cashed in as soon as practicable. So instead of additional contributions strengthening plan funding, they usually are used to reduce future contributions in the short term. Once again the children are within the rules established, but not exhibiting the behavior desired.

A particularly dangerous phenomenon can occur in the interplay of the full funding limit and credit balance when a plan's full funding limit is zero. In this case, any existing credit balance at the beginning of the year simply rolls forward with interest. This occurred often in the heady days leading up to the market peak in 2000. When the market turns however, a danger arises in the extension of contribution holidays based on old credit balances whose underlying "excess" assets have been wiped out by subsequent losses. Thus, underfunded plans are permitted to skip necessary contributions.

The established rules are too loose to achieve the desired result of well-funded plans.

2.2 Punishment for Poor Funding Is Unpredictable and Severe

Good parenting is marked by predictable and measured punishment for unacceptable behavior. These two features are nowhere to be found in the additional funding charge (AFC). The AFC is in effect a second funding valuation based on a plan's current liability. An AFC is imposed on the calculation of the contribution if a plan's "gateway percentage," defined as the actuarial value of assets divided by current liability, drops below 80 percent. An AFC is also imposed if the gateway percentage is between 80 and 90 percent, and the gateway percentage does not exceed 90 percent in at least two consecutive of the previous three plan years. This murky construct is known as the "lookback rule."

The very nature of current liability, being based on treasury or corporate bond rates, makes its projection difficult. Combine that with asset volatility, the all-or-nothing approach to AFC applicability, and the relatively large size of the AFC contribution, and you have a recipe for an extremely unpredictable contribution schedule.

Once the applicability of an AFC is determined, the ponderous job of its calculation is undertaken. Since this is a response to a call for brief papers, suffice it to say that the AFC calculation requires its own page of a Schedule B containing no fewer than 17 lines of information. The root calculation of the AFC, called the "Unfunded New Liability Amount," is itself not intuitive. Somehow it was determined that the best way to fund a plan was not through the use of actuarial principles, but rather to fund a percentage of the excess of the current liability over the actuarial value of assets equal to

$$30\% - (40\% \times (\text{Current liability funded percentage} - 60\%)).$$

(The source of this calculation can be found in Dan Brown's *The Da Vinci Code*.)[2]

Plan sponsors rarely know or care exactly how the AFC is calculated. What they do know is that the amount of the AFC is usually several times the normal minimum, and that predicting when a massive cash requirement is going to come due is extremely difficult, even for the professional actuaries hired to do the job. Plan sponsors interpret the AFC as sheer unadulterated pain. It is something to be avoided at all costs.

When children feel that parental punishments are too harsh or unjustified, they are less likely to conform to desired behavior. It is more likely that they will use every means at their disposal to avoid the punishment in the first place, even if this means using less than honest methods.

[2] Not really.

We as consulting actuaries are often put in this position. The arbitrary and contrived nature of the AFC, combined with the difficulty we have in communicating it to plan sponsors effectively, reduces the validity of the requirement in the eyes of sponsors and consultants alike. As a result, "gaming" the gateway percentage is common actuarial practice, whether that be advising clients to make additional contributions just sufficient to reach a gateway of 90 percent, or selecting a new measurement of the actuarial value of assets to achieve the same end.

Much has been said and written lately about the appropriateness of asset smoothing. A significant problem with smoothing is not the smoothing itself, but rather the use of asset smoothing to game the AFC. In the absence of the AFC, asset smoothing would be an acceptable way to calculate assets for purposes of long-term funding. Without the AFC, the incentive to tinker with the smoothing methods would be greatly reduced.

Gaming techniques get you only so far, however, and eventually the AFC piper needs to be paid. Just as a child stung by severe punishment may choose to run away from home to avoid future pain, so too do plan sponsors look for radical ways to avoid the pain of future AFCs. This may take the form of accrual freezes or even plan terminations.

The intent of the AFC, to get more money into pension plans, is noble. However, because of its unpredictability, severity, and perceived unfairness, it often serves instead to push sponsors away from their plans. It can be called a "termination trigger" because a plan sponsor may know that their plan is a bit underfunded, but it is the immediate, overwhelming cash requirement of the AFC that will start talk of plan termination. The punishment is unpredictable and severe and does not serve to encourage well-funded plans. In fact, it encourages abandonment.

2.3 Problems Caused by Poor Behavior Are Fixed by the Parent

So here we are. The child has broken the house rule to adequately fund his pension plan. The parent has assigned a punishment in the form of large AFC contributions. Now is the time for consistency. Whether the punishment is thought to be draconian or not, it is too late to undo what has been done. The parent needs to be tough, stick to his or her guns, and see that the sponsor's plan is funded according to the rules.

Astonishingly, the current rules again fail on this point. Plan sponsors seeing the large AFC contributions, which are a product of their own behavior, decide that the pain is too much to bear. It must be avoided at all costs. It is a "termination trigger." Then, like the rich father who bails his misbehaving son out of every scrape, the PBGC stands with open arms willing to make everything better.

PBGC Regulation 4041.41 states the criteria for a distress termination. They are liquidation bankruptcy, reorganization bankruptcy, inability to continue in business, and unreasonably burdensome pension costs.

Liquidation seems a reasonable threshold to drop a plan, as the sponsor will cease to be. "Inability to continue business" and "unreasonably burdensome pension costs" both rely on showing that these conditions exist to the "satisfaction of the PBGC." The ethereal nature of these criteria can't help but to give a glimmer of hope to sponsors that they can somehow get out from under their plans.

In an ironic twist, the structure of current funding rules produces the "unreasonably burdensome" pension costs required for termination. If reasonable, annual contributions are made to a plan, the likelihood of any single contribution being "unreasonably burdensome" would be small. Once plan sponsors get used to running their businesses with few or no resources being diverted to fund pension obligations (thanks to the full funding limit and credit balance), what AFCs wouldn't be burdensome? It's just a matter of proving the unreasonableness of the burden.

It is reorganization, however, that has become a favorite tool for those looking to jettison "legacy costs." Steel companies and airlines in particular have used this mechanism in an attempt to "remain competitive" with their peers. This leaves the PBGC in the difficult position of precedent setting. If US Airways is permitted to shed its "legacy costs," how can United not receive the same treatment? Is Delta next? If the PBGC plays favorites, isn't it destroying the competitive balance in the market?

As if there weren't enough incentive to terminate, one of the eligibility criteria of the recent Health Coverage Tax Credit legislation, which provided displaced workers with 65 percent reimbursement of their medical premiums, was the receipt of pension benefits from the PBGC. Companies looking to shed "legacy costs" while still doing something positive for their displaced workforce were actually encouraged to dump their plans on the PBGC.

The result of the soft distress termination criteria has been the domino effect we have seen over the past few years of larger and larger plans falling to the PBGC.

Misbehaving plan sponsors saw that the punishment for their actions was too great. They moped and complained and filed for reorganization … and the PBGC bailed them out.

The result: the children learned nothing. There were no consequences for not funding plans. In fact, the mechanism established to fund the plans led to the original problem and triggered the thought process for termination. Now the rest of the family is losing pension benefits, and Dad is bailing out so many kids he's having problems paying the bills.

3. Back to the Show …

By this point in the program, the government and plan sponsor are looking downward in shame. From one angle it appears that a manly tear is rolling down the CEO's cheek. The poor employee has a look of terror on her face. Have those she has entrusted her retirement to betrayed her?

The Doctor again speaks:

I know it looks hopeless, but I can help you … if you want to be helped! Are you ready to change to save your single employer DB plans?

The three glassy-eyed guests join hands and nod mutely in the affirmative.

4. A Proposed Solution

The DB funding crisis is large and complex. There will be many fixes proposed, and many issues debated. Whatever the technical construction of the final system, however, it should be built to accomplish the following *pension funding redesign objectives:*

1. Simplify funding rules
2. Reduce contribution volatility
3. Encourage contributions in excess of the minimum
4. Eliminate funding holidays unless plans are very well funded
5. Discourage plan dumping on the PBGC
6. Encourage the retention of current plans and the startup of new DB plans.

Analyzing this list, it becomes apparent that if the first item is done correctly, the other five will follow. A simple funding scheme can be constructed that will reduce contribution volatility, encourage contributions in excess of the minimum, and eliminate holidays until they are deserved. In turn, plans will have stronger funding positions and will not experience the termination triggers that drive them to the PBGC. If done right, the market may even come to the conclusion that with predictable contributions, DB plans make business sense as the most efficient way to deliver pension benefits in a way that protects retirees from longevity risk.

In constructing the simplified funding rules, we will reverse our current situation and build within the framework of a "good-parenting" model:

- A small number of simple rules will be established that will achieve the desired goal of well-funded plans.
- Any "punishment" for poor funding in the form of higher contributions will be reasonable and predictable.
- No bailout. Should a plan become underfunded, the responsibility of the plan will be left with the plan sponsor to the extent possible.

Being a TV psychologist, Dr. Phil tends to speak in absolute terms. He is a reasonable man, however, and realizes that alternative methods are possible on many points. Where applicable, possible alternatives will be addressed in his proposals. (Any vehement disagreements with the opinions stated here should be saved until the end of the paper, and then referred directly to Dr. Phil himself.)

So, without further ado:

5. Dr. Phil's Guide to Pension Funding Reform

Proposal I. Eliminate the Artificial Constructs of Today's Rules

The main impediments to effective funding today are those items that run afoul of pure actuarial methods. As described earlier, the current full funding limit definition, the credit balance, and the AFC are the driving forces behind underfunding and subsequent plan termination. As artificial constructs, they should be eliminated immediately from minimum contribution calculations.

Proposal II. Calculate Liabilities Using a Simple, Reasonable, and Conservative Method

One of the hot topics these days is the use of financial economics and yield curves to determine pension plan liabilities. From a theoretical standpoint, yield curves have a lot of appeal. Based on a portfolio of bonds, yield curves provide a conservative and precise value of a plan's liabilities … until tomorrow, when the shape of the curve changes.

Practically speaking, yield curves are not well understood by most people. They have the potential to be erratic, twitchy things that run counter to our desire for reduced volatility of contributions. Although they are useful for developing clear snapshots, which may hold value in the calculation of termination liabilities, they are poorly suited for long-term funding purposes.

It is important to remember that the main reasons for underfunding are the artificial constructs to be eliminated in Proposal I. It is not the use of a single interest rate in calculating liabilities that has led to underfunding, but rather the interference with the contributions based on these calculations brought on by the full funding limit and credit balance. It is true that funding rates for many plans are too aggressive, as high as 9 percent or more. But even an unmolested contribution stream based on 9 percent liabilities would have plans in better condition than they are today.

Yield curves are too complicated and too volatile for plan sponsors, and they do not address the core issue of underfunding. Therefore, they are not part of this proposal.

Financial economists will cringe, but Proposal II recommends the selection of a single, conservative interest rate for funding purposes, between 5 and 7 percent today. The rate, selected by the plan's actuary, will serve as an acceptable estimate of low-risk, long-term asset return. In a conciliatory move to the FE community, the selected rate can be supported by yield curve analysis in much the way FAS 87 discount rates are today, with a wider corridor of acceptance.

Proposal III. Use the Aggregate Funding Method

Thanks to our friends at FASB, most plans today use a version of the projected unit credit method for funding purposes. This alone is a reason not to blindly accept further recommendations from the accounting community on pension funding.

Unit credit methods contribute to underfunding by low-balling normal cost for younger plan participants. They also contribute to volatility through the use of five-year amortization of gains and losses. Opponents of asset-smoothing techniques can thank the unit credit methods in some part for providing incentives to adopt smoothing techniques to mitigate gain and loss amortization volatility.

It is not Dr. Phil's intention to be a tyrant, so the use of current funding methods will continue to be permitted. If plan sponsors can handle the volatility of immediate gain methods, they will be allowed to use them with a few changes to the amortization of bases.

Amendment bases are too long at 30 years, and experience bases are arguably too short at five. Going forward, all bases should be amortized over the same period between five and 10 years. The seven-year amortization period currently being recommended by the Bush administration would be acceptable. Unlike the Bush proposal, however, actuarial gains would be recognized as an offset to actuarial losses, but not normal cost.

The recommended funding method under Proposal III is the aggregate method. Under the proposed method, the plan's total present value of benefits (TPVB) would be calculated using the selected funding rate. The difference between the TPVB and the asset value would be amortized over the future working lifetime of the employees covered under the plan. The amortized amount is the plan's normal cost, which with interest to the end of the year would equal the minimum funding contribution. No amortization bases would be used.

The aggregate method combines simplicity with a built-in volatility control. Total present value of benefits, assets, and future working lifetime are fairly easy concepts to communicate to plan sponsors. Because of the spreading of gains and losses, the ups and downs of the asset market do not result in termination triggers. With the groundswell of support for a mark-to-market asset definition, the aggregate method makes sense as a way to protect plan sponsors from contribution volatility.

Proposal IV. Adopt a Real Full Funding Limit

Today's funding rules have full funding limits for minimum contribution and maximum contribution purposes. There are slight differences between the two limits, including the permitted use of a lower interest rate for maximum purposes under the Pension Funding Equity Act. What both full funding limits have in common, however, is that they fail to capture full funding on either an ongoing or a termination basis.

Proposal IV recommends two new full funding limits:

1. The plan's unfunded TPVB used in the minimum contribution calculation
2. The excess of the plan's termination liability over the fair value of assets.

Termination liability could be set equal to the cost of purchasing an annuity on the open market. Other reasonable suggestions regarding its measurement would be considered.

The minimum required contribution would be limited by the TPVB full funding limit. This is logical under the aggregate method since a plan with assets in excess of its TPVB would have no normal cost, and consequently a minimum contribution of zero. The maximum tax-deductible contribution would be set at the greater of the TPV or termination full funding limits.

Serious consideration must be given to the impact of such a high maximum on tax revenue. Drafters of pension reform legislation must weigh the cost in lost tax revenue now versus the potential cost of added expenses in the future from additional government support of retirees. If we assume that free markets are more efficient than government operation, encouraging companies to fund and operate retirement plans would be the most cost effective way to increase retirement security for Americans.

Sometimes contributions in excess of the minimum are discouraged by the inability of plan sponsors to withdraw excess assets from their plans. Therefore, it is proposed that plan sponsors operating ongoing plans in good faith be permitted to withdraw funds in excess of the greater of the two full funding limits without penalty. Withdrawals would be taxable as regular income.

Proposal V. Redesign the Pension Insurance System

As stated previously, the PBGC has been discovered to be a soft touch when it comes time for delinquent plan sponsors to shed their "legacy costs." Companies willing to endure the rigors of reorganization bankruptcy are set free to reenter the market without the albatross of their underfunded liabilities. Conversely, those who have dutifully tended to their plans have higher and higher premiums heaped upon them to cover the deficit caused by their less responsible competitors. This leaves sponsors who are unable to foist their plans onto the agency looking jealously at those who have successfully passed through to post-DB nirvana.

The $23 billion PBGC deficit today is a sadly predictable end result of the current bad-parenting funding model. The goal of Proposal V will not be to shore up the PBGC, but to present a more logical plan for insuring participants' benefits. This includes building an environment that encourages stronger individual funding of DB plans and the startup of new insured plans. This would in turn ease much of the pressure currently on the PBGC.

The current PBGC premium structure undercuts defined benefits in two ways. First, the sheer size of the premium serves as a disincentive to sponsor a DB plan in the first place. (At the time of this writing, the premium of 401(k) plans is still zero.) Second, PBGC premiums are often paid out of the same trust that should be reserved to provide benefits to the participants. ERISA permits reasonable administrative expenses for qualified plans to be handled this way, and PBGC premiums have been determined to fit this description.

Parasitically, funds are siphoned from remaining DB plans to fund the growing mass of PBGC wards. Many of these PBGC recipients were left at the doorstep by reorganizing plan sponsors who have since reemerged, sometimes profitably, without contributing to support their prebankruptcy liabilities.

The proposed PBGC redesign has six major points.

1. The proposed new PBGC premium structure would be based on the same unfunded termination liability as that used in the new full funding limit. The premium rate to apply to the unfunded liability would be variable based on the risk of underfunded plan termination. Financially strong plan sponsors whose plans hold a high percentage of fixed-income securities would have lower premium rates than weak sponsors whose plans are

invested primarily in equities. Plans with assets exceeding the termination liability should have minimal or no premium payments.

2. Plan sponsors who have dumped their plans on the PBGC for any reason other than liquidation bankruptcy should be held liable for their benefit obligations to the maximum extent possible. Future profits from reorganized companies should be attachable by the PBGC in some way to cover at least a portion of prebankruptcy pension obligations.
3. Going forward, liquidation bankruptcy should be the only acceptable reason for plan takeover by the PBGC. Other situations such as reorganization should be handled through accrual freezes and future PBGC oversight, but not necessarily PBGC funding.
4. Premiums should not be payable from plan assets. Withdrawing funds from a plan to protect the same plan from defaulting on its liabilities is counterproductive. It is inconsistent that increasing attention is being paid to expense payments from 401(k) funds, yet a similar conversation is not in progress regarding the payment of PBGC premiums from DB trusts.
5. PBGC premiums should be offset by some portion of the amount a plan sponsor contributes to their own plan in excess of the minimum contribution. Giving plan sponsors an incentive to contribute more to their own plans will do more to ensure retiree security than building a PBGC reserve. As most plan sponsors would prefer to start a bonfire with their money rather than pay it to the PBGC, this would be a popular incentive for plan funding.
6. Finally, PBGC coverage should be optional. In the event a plan sponsor can convince a private insurer to provide coverage at a better price, they should be permitted to do so.

Philosophically, the strategy for the PBGC redesign fits nicely with the idea of an ownership society. In this case, however, the owners are the plan sponsors instead of individuals. Sponsors should stand up to their obligations, and the PBGC should serve as a safety net to protect participants in only the most extreme emergencies.

Dr. Phil wipes a few beads of perspiration off the top of his head:
OK, people, let me summarize my Guide to Pension Funding Reform for you all.

6. Summary of Dr. Phil's Guide to Pension Funding Reform

Proposal I. Eliminate the Artificial Constructs of Today's Rules

- Current full funding limits
- Credit balance
- Additional funding charge

Proposal II. Calculate Liabilities Using a Simple, Reasonable, and Conservative Method

- Conservative constant rate chosen by actuary
- Estimate between 5 and 7 percent today
- Yield curves not used directly, but may be used to support rate selection

Proposal III. Use the Aggregate Funding Method

- Best protection against volatility
- Safe choice if actuarial smoothing of assets is eliminated
- Immediate gain methods permitted with uniform amortization periods (5–10 years)

Proposal IV. Adopt a Real Full Funding Limit

- Minimum FFL equal to unfunded TPVB
- Maximum FFL greater of minimum FFL or unfunded termination liability
- Refunds of assets in excess of maximum FFL permitted

Proposal V. Redesign the Pension Insurance System

- Emphasize individual plan responsibility
- Only permit liquidated sponsors to use distress termination
- Allow PBGC to seek reimbursement from reorganized sponsors
- Prohibit premium payment from plan assets
- Offset PBGC premium by additional contributions to sponsor's plan
- Permit sponsors to insure their plans elsewhere if they can

How do the proposals stack up with the "good-parenting" model?

- **A small number of simple rules will be established that will achieve the desired goal of well-funded plans.**

The funding rules are relatively very simple, requiring only two liability calculations. (The minimum requires only one.) The complexity of yield curves will be avoided. Contribution patterns will be smoother and more predictable. Funding holidays will be deferred until true full funding is attained. Contributions in excess of minimums are encouraged through tax deductions and PBGC premium offsets. Plans would be more well funded, which is the desired result.

- **Any "punishment" in the form of higher contributions will be reasonable and predictable.**

The penalty for poor asset performance is a slightly higher contribution the next year. The valuation interest rate is not volatile, avoiding unexpected jumps in liability. There is no additional funding charge termination trigger. Projecting the impact of asset return scenarios will be easier, without the arbitrary spikes and holes of today's funding rules. "Punishments" through increased contributions are reasonable and predictable.

- **No bailout. Should a plan become underfunded, the responsibility of the plan will be left with the plan sponsor to the extent possible.**

The lack of termination triggers makes it less necessary to terminate plans. The redesign of the pension insurance system makes it more difficult to dump plans on the PBGC. The basic funding rules will result in better-funded plans, with less need for termination insurance. Plan sponsors undergoing reorganization bankruptcy will be held responsible for liabilities. Plan sponsors will be permitted to find other insurers for their plans.

Does the good-parenting model meet the stated objectives?

1. Simplify funding rules?
2. Reduce contribution volatility?
3. Encourage contributions in excess of the minimum?
4. Eliminate funding holidays unless plans are very well funded?
5. Discourage plan dumping on the PBGC?
6. Encourage the retention of current plans and the start up of new DB plans?

The answer to the first five questions is a resounding, "Yes!" As to the retention and startup of DB plans, we can only hope that increased simplicity and predictability will bring employers back to the DB table once more. Hopefully, decades of bad parenting have not irreparably damaged the prospect of this occurring.

The audience gazes up in stunned amazement. The three guests are visibly torn between their relief at hearing such a simple solution to their problem and their anger for not thinking of it on their own. Dr. Phil takes a quick sip of spring water and goes into his closing:

> *You realize, people, that only you can make this change happen! You are in control of your lives! I can't do it for you! So get out there and save your single-employer DB plans!*
>
> *We'll come back to check on you all in six months to see how you're doing! Now, why don't you all give each other a great big hug!*