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ECONOMY

Treasury Withdraws Proposed Pension Regulations

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The Treasury Department yesterday withdrew proposed regulations on cash-balance pension plans that critics claimed discriminated against older workers.

Cash-balance plans are pensions that instead of guaranteeing a stream of monthly payments in retirement, as traditional pensions do, provide hypothetical accounts for individual employees that grow each year with contributions. When employers adopt them, older employees can see their pensions fall 20% or more because of the formula for setting them up.

The proposed regulations had concluded the cash-balance plans should be excluded from age-discrimination laws that pertain to pension plans.

Their withdrawal may reflect the Administration's unwillingness to anger older voters in an election year.

Congress now plans to craft legislation that provides employers with a legal framework for the plans.

Employee advocates hailed the news. "The Treasury Department's ill-advised plan would have seriously harmed millions of white collar employees nearing retirement, and I'm glad to see that, under pressure from Democrats in Congress and workers across the country, the Administration has decided to discard the plan," said Rep. George Miller (D., Calif.), the senior Democrat on the House Education and Workforce Committee, in a statement.


While the Treasury's move means that cash-balance plans, which more than 300 companies have adopted, will remain in regulatory limbo, employers hope Congress will now change pension law so that the new-style pension plans are in compliance with the law, and are protected from lawsuits.

Employers have warned that unless they are given more assurance that cash-balance plans won't backfire on them, they will pull the plug on pensions altogether.

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"This is being thrown to Congress," said Dave Certner, legislative affairs director at retiree-advocate group AARP, "but given the short time remaining in the session, legislation may not happen this year."

That won't be for lack of suggestions. Lobbyists representing employers and benefits consulting firms have been meeting with members of Congress in recent weeks to present potential legislation they would like to see implemented.

Minutes after the Treasury's announcement, Rep. John Boehner (R., Ohio), chairman of the House Workforce Committee, announced a July hearing to discuss solutions for cash-balance plans.

"Unfortunately, the ongoing uncertainty about cash balance plan conversions is undermining the retirement security of American workers and jeopardizing employers' willingness to continue offering defined benefit plans to their employees," he said in prepared remarks.

Cash-balance plan conversions have saved employers billions of dollars, but their legal status remains in doubt.

Last July, a federal district court ruled that **International Business Machines** Corp. discriminated against older workers when it adopted a cash-balance plan, and three appeals courts, most recently in a case against **Xerox** Corp., have concluded that cash-balance plans must follow pension law when calculating pension payouts.

For months, members of Congress and various government agencies have been discussing ways employers could adopt cash-balance plans, while still providing some protections to older workers.

But there is still considerable disagreement over what to do.

Employers generally want any changes to be retroactive, while employee advocates say that this would reward employers who have violated pension law.

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