#2005-13
October 2005

Transition Provisions in Large Converted Cash Balance Pension Plans

by
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The AARP Public Policy Institute, formed in 1985, is part of the Policy and Strategy Group at AARP. One of the missions of the Institute is to foster research and analysis on public policy issues of importance to mid-life and older Americans. This publication represents part of that effort.

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Foreword

Over one-fourth of all single employer defined benefit (DB) plan participants are now in plans with cash balance formulas. The vast majority of cash balance plans have been converted from traditional DB plans, with sponsors of large plans in the forefront of the movement toward conversion to cash balance.

Many have raised concerns about whether cash balance plan conversions discriminate against older workers—especially long-service older workers—and deprive these workers of late-career benefits just as they were about to obtain them. This report by Daniel J. Beller investigates the effects on older workers of conversions of traditional DB plans to cash balance plans. This study, which was funded under a contract from AARP, used the Annual Form 5500 reports filed with the Department of Labor for 2003 plan years to determine the extent to which large DB plans that have converted to cash balance plans also included transition amendments. The 25 largest cash balance plans (in terms of numbers of participants) were included in the analysis. The annual Form 5500 is the best publicly available source of information on transition provisions. Analysis of the Form 5500 reports was followed up by telephone calls to representatives of all the plans to validate the information in the reports.

The analysis by Beller reveals that transition provisions are very common in large plans and were adopted by 23 of the 25 plans examined. The most common types of provisions were to grandfather older workers under the prior plan formula or to grant older workers a benefit based on the greater of the prior or new formula. A third, less common, type of provision provided supplemental pay-based credits to some or all participants in the prior plan.

The findings of this report raise a number of important research and policy questions about cash balance conversions and the transition provisions available to older workers. There is a need to develop policies which ensure that cash balance plans prohibit age discrimination in benefits and comply with current laws governing the operation of DB plans. In addition, there is need to extend to workers, at the time of their retirement, the option to choose the benefit calculated under the old formula or the benefit available under the new cash balance plan, whichever is greater.

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Introduction

Traditional defined benefit (DB) plans typically provide benefits based on a percentage of final pay times years of service. Cash balance plans are a newer type of DB plan that provide each participant with a hypothetical account that is generally credited by the employer with a dollar amount based on a percentage of earnings and a rate of return on the accumulated contributions. Over one-fourth of all single employer DB plan participants are now in plans with cash balance formulas. The vast majority of cash balance plans have been converted from traditional DB plans, with sponsors of large plans in the forefront of the movement toward conversion to cash balance.

Unlike traditional final pay plans where benefit accruals are highest in the years immediately preceding retirement, benefits in cash balance plans are based on career earnings and provide for more uniform benefit accruals. The transfer of participants from a final pay to a cash balance formula may result in lower than anticipated retirement benefits for those participants who remain with their company until retirement. To completely or partially offset the gap between the benefits older employees would receive at retirement under the cash balance formula as compared to the prior final pay benefit formula, sponsors of converted cash balance plans may add transition provisions providing special treatment to some or all former participants in the converted plans.

Purpose

This report investigates the effects on older workers of conversions of traditional DB plans to cash balance plans.

Methodology

Annual Form 5500 reports filed with the Department of Labor for 2003 plan years were used to determine the extent to which large DB plans that have converted to cash balance plans also included transition amendments. The 25 largest cash balance plans (in terms of numbers of participants) were included in the analysis. The annual Form 5500 is the best publicly available source of information on transition provisions. Analysis of the Form 5500 reports was followed up by telephone calls to representatives of all the plans to validate the information in the reports.

Findings

The key finding of the study is that transition provisions are very common in large plans and were adopted by 23 of the 25 plans examined. The most common types of provisions were to grandfather older workers under the prior plan formula or to grant older workers a benefit based on the greater of the prior or new formula. A third, less common, type of provision provided supplemental pay-based credits to some or all participants in the prior plan.

In addition to the variations in the type of transition provision adopted among large plans, there were wide variations in eligibility requirements for inclusion under the transition provision and the length of the period during which the transition provision remained in effect. In seven of the plans with transition provisions, all of the participants at the time of conversion were covered under the provision, while the remaining 16 plans specified a minimum age, service, or combination of age and service requirement for inclusion under the transition provision. Overall, roughly 45 percent of all prior plan participants in the plans were covered under some type of transition provision.

Eight of the plans with transition provisions specified that the provision would be in effect for a limited number of years, with the remaining plans covering eligible participants under the provision until retirement or termination of employment.

Conclusions

Among more recent plan conversions, there has been a trend toward transition provisions that grandfather in participants under the old final pay formula and also a trend toward including all participants in the prior plan under the transition provision rather than only older, long-term workers. These combined trends appear designed to reduce the controversy over conversions by maintaining the benefit structure that was in place for employees in the existing plan when they were hired.

Introduction

Conversion of traditional defined benefit (DB) plans to cash balance plans has grown rapidly within the last ten years, particularly among the plans of large employers. In 2003, 4.9 percent of all single-employer DB plans, covering 26.4 percent of total single employer DB plans' participants, had a cash balance formula.[1] It is clear from these numbers that cash balance conversions are a large-plan phenomenon. Among large single-employer plans with 5,000 or more total participants, 26.5 percent of the plans, covering 29.5 percent of the participants in large plans, had a cash balance formula.[2] This report examines the 25 largest cash balance plan conversions to determine how the conversions treated older workers in the transition to the new plans. To preview the findings, transition provisions are very common in large plans and were adopted by 92 percent of the 25 largest cash balance plans. There are wide variations among the converted plans in the types of transition provisions adopted, but the most common were to grandfather certain older workers under the prior plan formula, or to grant older workers a benefit based on the greater of the prior or new formula.

Background

Under a cash balance plan each participant has a hypothetical account that is generally credited monthly or quarterly by the employer with a dollar amount based on a percentage of earnings and a rate of return on the account balance calculated at a predetermined rate or tied to an external index such as U.S. Treasury bonds. While most traditional DB plans provide a benefit formula based on years of service and an employee's earnings in the years closest to retirement, cash balance plans are based on career earnings. Under final pay plans, benefit accruals are highest in the years immediately prior to retirement. For a plan participant approaching retirement age, conversion of a final pay plan to a cash balance plan may result in the initial value of his/her cash balance account set at a lower value than the current accrued benefits under the old plan. This will cause a period of no benefit accrual (commonly referred to as the "wear-away" period) until the contributions and interest credits to the account bring the balance up to the value accrued under the prior plan.

To completely or partially close the potential gap between the benefits older employees would receive at retirement under the cash balance formula as compared to the prior final

[1] PBGC Pension Insurance Data Book 2004, pp. 59-60. The PBGC data base includes a small number of pension equity plans. Both cash balance plans and pension equity plans define benefits in terms of a lump sum value but a cash balance plan has a career average pay formula whereas a pension equity plan has a final average pay formula.

[2] While some cash balance plans are new plans created by employers without prior traditional DB plans, the vast majority of cash balance plans, including all of the 25 largest plans that are examined in this study, are converted traditional plans.

pay benefit formula, plan sponsors often add transition or grandfather provisions to plans undergoing conversion. Most types of transition provisions either grandfather some or all employees participating in the plan at the time of conversion into the prior benefit structure or provide that participants accrue benefits under both the prior benefit formula and the cash balance formula for a certain number of years after conversion and receive the higher of the benefits accrued under each formula. A less common type of transition provision transfers all participants into the cash balance benefit structure but provides additional pay credits to some or all of the transferred participants, usually for a limited number of years.

Data Source

Annual Form 5500 reports filed with the Department of Labor for 2003 plan years were used to determine the extent to which large DB plans that have converted to cash balance plans also included transition amendments. The 25 largest cash balance plans (in terms of numbers of participants) were included in the analysis. The annual Form 5500 is the best publicly available source of information on transition provisions. All DB plans are required to file, as part of the Form 5500, a Schedule B Actuarial Information Report signed by an enrolled actuary and containing information on the funding status of the plan. A Statement of Actuarial Assumptions/Methods and a summary of the principal eligibility and benefit provisions on which the funding valuation was based are required to be attached to the Schedule B. Single-employer plans covered by the Pension Benefit Guaranty Corporation are also required to include data on the age and service distribution of active participants.[3]

Characteristics of the Sample Plans

The 25 largest cash balance plans were all single-employer plans and covered 9 percent of total participants in PBGC-insured single-employer plans and about 36 percent of total participants in single-employer cash balance plans. The total number of active participants in the plans examined was 1.4 million. The median year of initial plan establishment was 1959. The year of conversion to cash balance ranged from 1987 to 2003 and the median year of conversion was 1999. Three-fifths of the plans covered workers in manufacturing and finance and insurance industries. Only five of the plans were collectively bargained, and the cash balance feature in two of the collectively bargained plans covered only non-bargaining unit employees. Most of the companies

[3]In addition to the plan information contained in the attachments to the Schedule B, plan provision data is often included in the notes to the financial statement of the Independent Auditor's Report, required to be filed as an attachment to the Form 5500 for all plans with 100 or more participants. Analysis of the Form 5500 reports was followed up by telephone calls to representatives of all the plans to validate the information in the reports.

sponsoring the converted plans also sponsored supplemental defined contribution plans covering the same group of employees.

Prevalence of Transition Provisions and Eligibility Requirements For Inclusion Under the Provisions

All of the Form 5500 filings for the 25 plans contained information on key plan provisions. Included among the provision data for 23 of the plans were transition provisions that affected some or all of the participants in the converted plans.[4]

In seven of the plans with grandfather provisions, all of the participants at the time of conversion were covered under the provision. In the remaining 16 plans with grandfather provisions, the transition amendments specified a minimum age, service, or combination of age and service requirement for inclusion under the grandfather provisions. Based on the age and service distribution tables for active participants provided in the actuarial reports of the plans with eligibility requirements, roughly 29 percent of all active participants in the 16 plans met the requirements for inclusion under the transition provision. For all 25 plans examined, including the two plans with no identified transition provisions and the seven plans with all participants included under the transitions provisions, about 45 percent of the total of 1.4 million active participants were included under some type of grandfather provision.

The plans of two companies (Eaton Corporation and IBM) offered participants a choice of remaining under the old final pay benefit structure or switching to the cash balance benefit structure. In the Eaton Plan all participants were offered the choice. The IBM Plan offered the choice to participants meeting certain age and service requirements. Of the remaining 21 plans with transition provisions, the transition amendments specified the requirements for inclusion in the group that would be subject to the provisions.

Among the 16 plans restricting coverage under the transition provision to participants meeting certain age and/or service requirements, the requirements varied widely. Plans with more inclusive requirements included the Kroger Co. Consolidated Retirement Pension Plan, which grandfathered into the prior plan benefit structure all vested participants who were either age 39 and1/2 or had a combination of age plus service of 50. Based on the age and service distribution of active participants in this plan, about 43 percent of the active participants qualified under the provision. One of the more

[4] One of the two remaining plans (Washington Mutual Cash Balance Plan) did provide for a subsidized early retirement benefit (although not classified here as a transition provision) for participants with 10 or more years of service at the time of conversion and who chose to receive an annuity at age 55 or later. The Washington Mutual Plan was converted to a cash balance plan in 1987, when there was relatively little controversy over conversions regardless of whether or not converted plans included transition provisions.

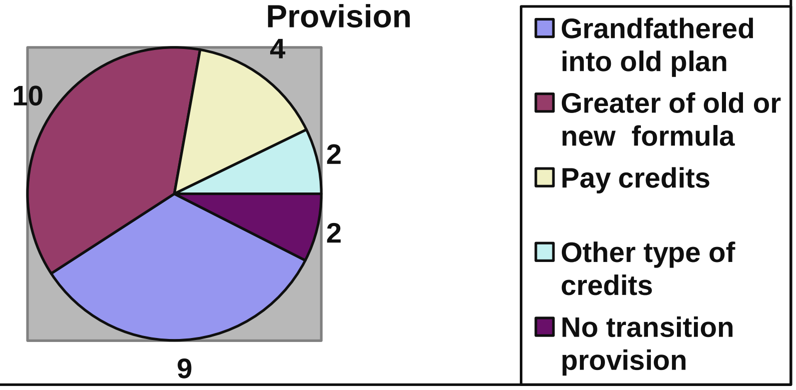
restrictive requirements was in the Bank of America Pension Plan, which imposed a requirement of age 50 and 10 years of vesting service and age plus vesting service of 65. About 14 percent of the participants in the plan met this requirement.

The age and service distribution of active participants in manufacturing and telecommunications industry plans tended to be skewed toward older long-term participants, leading to relatively high percentages of participants meeting transition eligibility requirements. For example, the age and service distribution for the Verizon Management Pension Plan indicated that 61 percent of all active participants met the 10-year service requirement for transition coverage. Six of the seven plans grandfathering all participants under their transition provisions covered workers in manufacturing and telecommunications.

Types of Transition Provisions

Most of the transition provisions fell within three basic categories, but even within the three categories there was wide variation in the provisions (Figure 1). Two plans provided more than one type of provision. The three basic types of provisions are discussed below.

Figure 1
Distribution of Plans By Type of Transition Provision



Note: Numbers add up to 27 because 2 plans had more than one type of provision.

1. **Grandfathered participants receive retirement benefits calculated under the prior plan's final pay formula.**

Nine plans, covering a total of 492,000 active participants (or 38 percent of all active participants in plans with transition provisions) provided this type of provision (Table 1). Two plans (GM Retirement Program for Salaried Employees and Lucent Retirement

Income Plan for Management Employees) designated the cash balance feature for new employees only and grandfathered all employees hired prior to the conversion date into the pre-existing benefit structure. A third plan (Eaton Corporation Plan) offered all participants in the pre-existing plan a choice of remaining in the old plan.

The remaining six plans imposed an age, service, or combination of age and service requirement for grandfathering into the prior plan. The Citigroup plan, for example, grandfathered in all participants age 45 or older, with 5 years of service and age plus service of 60 or more. The IBM plan offered a choice of the old or new plan to participants with one year of active employment who were either within five years of meeting the plan's eligibility requirements for retirement[5] or were age 40 with 10 or more years of service.[6]

Among all nine plans in this group, about 43 percent of the active participants were either required to remain in the prior plan or offered the option of staying in the prior plan.

2. **Grandfathered participants receive the greater of a benefit calculated under the prior plan's final pay benefit formula or the cash balance formula**

Ten plans, covering 573,000 active participants (or 44 percent of the active participants in plans with transition provisions) contained this type of provision (Table 1). Three plans (Northrop Grumman Pension Plan, Aetna Retirement Plan, and SBC Pension Benefit Plan) covered all participants under this provision. The remaining seven plans imposed an age, service, or combination of age and service requirement.

Five of the ten plans provided for the calculation of benefits under both formulas until retirement or termination. All five of these plans imposed an age and/or service requirement for coverage under this provision. For example, the Wells Fargo & Company Cash Balance Plan provided that all participants aged 45 and older with 5 or more years of service would receive the greater of the benefit accrued under the prior final pay formula or the cash balance formula for all service from the date of conversion until retirement or termination. Twenty-two percent of the Wells Fargo Plan participants met this requirement.

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[5] Participants are eligible to retire after meeting any of the following requirements: completion of 30 or more years of service; at age 55 after completing 15 or more years of service; at age 62 after completing 5 or more years of service; or at age 65 after completing 1 or more years of service.

[6] At the time of conversion, the IBM Plan contained a more restrictive age/service requirement for inclusion under the transition provision. The conversion was widely criticized by both participants and outside groups and prompted IBM to later amend their transition provision to cover a greater percentage of participants under the provision.

The remaining five plans imposed a limit on the period during which benefits would accrue under both formulas, ranging from 5 to 12 years from the date of conversion. Benefits for service accrued after the expiration of the transition period were based on the cash balance formula for all but one of the five plans. [7]

Among the total active participants in the 10 plans offering the greater of the benefits calculated under the old and new formulas, about 47 percent qualified for this type of transition treatment.

3. **Supplemental Percentage of Pay-Based Credits Provided**

Four plans, covering a total of 331,000 active participants (or 26 percent of active participants in plans with transition provisions) provided for pay credits (Table 1). All but one of the plans imposed a minimum age and/or service requirement. The Bank One Personal Account Pension Plan, for example, provided annual supplemental pay-based credits to grandfathered participants that varied by age and vesting service. The range was from 1 percent for participants whose combined age and service were from 55 to 59 and who were age 45 to 49 as of the date of conversion to 8 percent for participants whose combined age and service was 75 or more and who were age 50 or older as of the date of conversion. The IBM plan provided that eligible participants who choose the option of joining the cash balance plan would have their monthly earnings multiplied by a transition pay credit rate ranging from 1 percent for participants age 40 with 1 year of active service or with a combined age and service of 50-54 to 4 percent for participants with combined age and service of 65 or more.

Three of the four plans providing pay credits limited the period of the enhanced benefit, with two plans providing the benefit for 10 years from the date of conversion and one plan for 5 years.

Two of the plans providing supplemental pay-based credits (the IBM and SBC plans) also provided another type of transition benefit (see Appendix A).

4. **Other Types of Supplemental Credits to Benefits Accrued at Time of Conversion**

Two plans had unique transition provisions (Table 1). The Boeing Pension Value Plan provided for an increase in the accrued benefits as of the conversion date based on the

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[7] One of the five plans (The Verizon Management Pension) used a modified prior plan formula for the calculation of benefits accrued 12 or more years after the conversion date. This plan, with a January 1, 1996 effective conversion date, provided participants who had ten or more years of service the higher of the benefit accrued under the cash balance plan or the benefit based on a final pay (high five) formula through December 31, 2007 and a career pay formula from January 1, 2008 until retirement or termination.

growth in base pay. The transition benefit was calculated by multiplying benefits accrued under the prior plan by a factor based on the highest annual base pay rate on any date on or after the transition date divided by the annual base pay rate as of the transition date. All plan participants received this transition benefit.

In the American Express Retirement Plan, participants who were age 46 or older on the conversion date had the present value of pre-conversion accrued benefit increased by a percentage of the value of the early retirement benefit payable under the prior plan at the participant's earliest retirement date (age 55 with 10 years of service for most participants). For participants eligible for early retirement on the conversion date the provision provided for a 100 percent increase. The percentage for participants not yet eligible for early retirement at the time of conversion was 100 percent minus 10 percent for each year from the conversion date to the participants earliest retirement date (but not less than 0 percent).

Table 1
Number of Plans with Transition Provisions by Eligibility Requirements and Limit on Period Provision is in Effect

Eligibility requirements and time limits	Total	Grandfathered into old plan	Greater of old or new formula	Pay credits	Other types of credits
Total	25	9	10	4	2
Both eligibility requirement and time limit on provision	4	-	2	2	-
Eligibility requirement only	13	6	5	1	1
Time limit only	4	-	3	1	-
Neither eligibility requirement nor time limit	4	3	-	-	1

Note: Numbers add up to 25 because 2 of the 23 plans with transition provisions had more than one type of provision.

Trends in Transition Provision Coverage

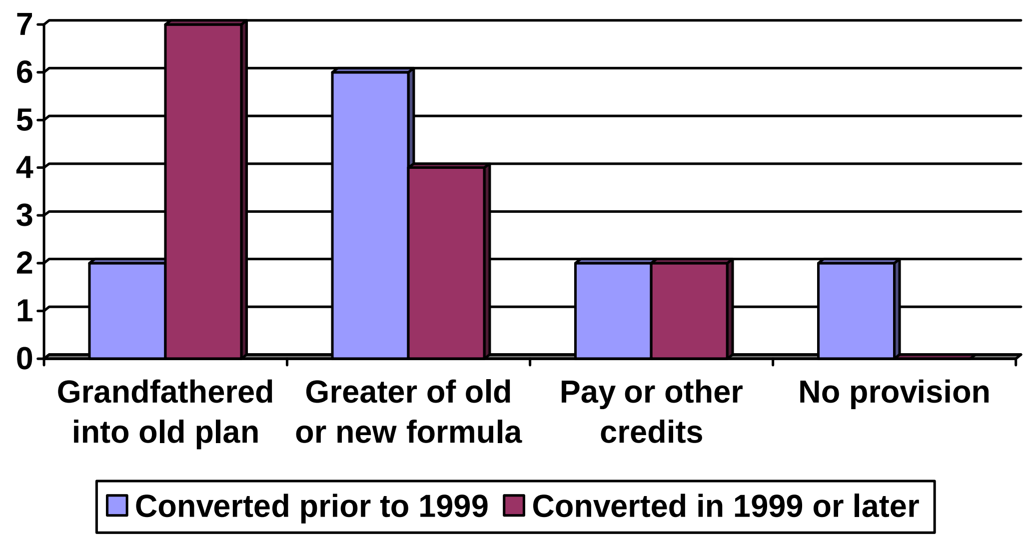
Comparison of transition provisions in plans converted prior to 1999 with those converted in more recent years shows changing patterns in both eligibility requirements and the type of transition provision most likely to be adopted (Figure 2). Nine of the ten pre-1999 plans with transition provisions imposed an age/service requirement for transition coverage. Of a total of 573 thousand active participants in the 10 plans, about 37 percent were eligible for transition coverage.

Among the 13 plans adding a cash balance feature in 1999 or later, only seven had an age/service eligibility requirement, with the remaining six plans grandfathering in all participants under the transition provision   About 55 percent of the total of 740,000 active participants in the 13 plans were covered under a transition provision

The second major trend is toward a transition provision that grandfathers in participants under the prior plan benefit formula. Fifty-four percent of plans converted in 1999 or later provided this type of transition provision compared to only 17 percent of pre-1999 converted plans. Conversely, a transition provision that provides eligible participants with the greater of the benefit accrued under the old or new formula is becoming less popular, with 31 percent of plans converted in 1999 or later adopting this type of provision compared to 50 percent of plans converted prior to 1999.

Figure 2

Number of Plans by Type of Transition Provision and Year of Conversion



Summary and Conclusions

Over one-fourth of all single employer DB plan total participants are now in plans with cash balance formulas, with sponsors of large plans in the forefront of the movement toward conversion of traditional plans to cash balance plans. Transition provisions are very common in large plans and were adopted by 92 percent of the 25 largest cash balance plans. There are wide variations among the converted plans in the types of transition provisions adopted, eligibility requirements for inclusion under the transition provision, and the length of the period during which the transition provision remains in effect.

Conversions of traditional final pay plans to cash balance plans are controversial because the transfer of participants from a final pay to a cash balance formula may result in lower than anticipated retirement benefits for those participants who remain with their company until retirement. Criticism of conversions reached a peak with the IBM Plan conversion in 1999 and prompted IBM to later amend its transition provision to cover more participants. Since 1999 the trend among large converted plans has been toward the adoption of transition provisions that appear designed to reduce controversy over the conversion without adding appreciably to plan costs. This is being done in two ways. First, there is a movement toward eliminating eligibility requirements for transition coverage. The cost to converted plans that choose to cover all workers (rather than only older, long-term workers) under a grandfather provision is likely to be low because most young workers leave prior to retirement and would fare better under a cash balance formula than a final pay formula.

Second, there is a trend toward transition provisions that grandfather in participants under the old final pay formula. This type of transition provision, when applied to all current participants, is among the least controversial because it maintains the benefit structure that was in place for employees participating in the existing plan when they were hired. Plans such as the GM Plan for Salaried Employees and the Lucent Retirement Income Plan that grandfather in all participants under the old final pay formula may also experience lower plan costs by requiring their vested, young, more mobile workers to have their benefits calculated under a final pay formula rather than a cash balance formula.

APPENDIX A
List of Sample Plans and Type of Transition Provision

I. The grandfathering of participants into the benefit structure of the pre-existing plan

General Motors Retirement Program for Salaried Employees
EIN: 380572515 *PN*:[8] 001
Number of participants: 194,809
Number of active participants: 50,664
Initial date of establishment: 10/1/1940
Effective conversion date: 1/1/2001
Eligibility requirements for inclusion under grandfather provision: All employees hired prior to 2001 are grandfathered into prior plan.
Percent of participants included under transition provision: 100%.

Lucent Retirement Income Plan (for management employees)
EIN: 223408857 *PN*: 001
Number of participants: 95,284
Number of active participants: 17,154
Initial date of establishment:10/1/96
Effective conversion date: 1/1/2000
Eligibility requirements for inclusion under grandfather provision: All employees of Lucent hired prior to 1999 and employees of companies acquired by Lucent prior to 10/1/1996 are grandfathered into prior plan.
Percent of participants included under transition provision: 100% of Lucent employees.

Eaton Corporation Pension Plan
EIN: 340196300 *PN*: 029
Number of participants: 57,888
Number of active participants: 25,332
Initial date of establishment: 1/1/1944
Effective date of conversion: 1/1/2002
Eligibility requirements for inclusion under grandfather provision: Plan covers both bargaining unit and non-bargaining unit employees. Cash balance feature covers only non-bargaining unit employees. As of 1/1/2003 all non-bargaining unit employees participating in prior plan were given a one-time choice of either continuing in the current pension formula or participating in the cash balance plan.

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[8] PN is an abbreviation of plan number. In addition to the requirement that all plans have an 9 digit Employer Identification Number, or EIN, plan sponsors are required to assign a three digit plan number or PN to each plan in order to distinguish it from other plans that the sponsor may have

Percent of participants included under transition provision: 100% of all participants of Eaton and most subsidiary companies eligible for cash balance plan (all non-bargaining unit employees - number not provided in filing).

<u>Citigroup Pension Plan</u>
EIN: 521568099 *PN*: 020
Number of participants: 257,277
Number of active participants: 123,860
Initial date of establishment: 7/1/1959
Effective date of conversion: 1/1/2000
Eligibility requirements for inclusion under grandfather provision: Citibank U.S. employees age 45 or older with at least 5 years of service and whose age plus service equals at least 60 as of 12/31/1999 were grandfathered into prior plan.
Percent of participants included under transition provision: 19%
Note: Transition provisions differ for employees of different subsidiary companies.

<u>Fleetboston Financial Plan</u>
EIN: 050341324 *PN*: 001
Number of participants: 80,871
Number of active participants: 36,207
Initial date of establishment: 1/1/1948
Effective date of conversion: 1/1/1997
Eligibility requirements for inclusion under grandfather provision: Active participants as of 12/31/1996 who were age 50 and older and with 15 or more years of service were grandfathered into prior plan.
Percent of participants included under transition provision: 9%
Note: Some employees of subsidiary companies are subject to different eligibility requirements.

<u>Cigna Pension Plan</u>
EIN: 061059331 *PN*: 001
Number of participants: 71,533
Number of active participants: 31,934
Initial date of establishment: 1/1/1983
Effective date of conversion: 1/1/1998
Eligibility requirements for inclusion under grandfather provision: Participants with 9 years of service (employees hired prior to 1/1/1989) and age plus service on 12/31/1997 of 45 or more were grandfathered into prior plan.
Percent of participants included under transition provision: 23%
Note: Transition provisions do not apply to employees of some subsidiary companies.

<u>The Kroger Co. Consolidated Retirement Pension Plan</u>
EIN: 310345740 *PN*: 006
Number of participants: 100,423
Number of active participants: 67,126
Initial date of establishment: 7/1/97
Effective date of conversion: 1/1/2001
Eligibility requirements for inclusion under grandfather provision: Participants with 5 years of credited service (vested) and either age 39 and1/2 or combination of age plus service of 50 were grandfathered into prior plan benefit structure.
Percent of participants included under transition provision: 43%
Note: Different transition provisions apply to participants in former plan of at least one subsidiary company.

<u>CBS Combined Pension Plan</u>
EIN: 042949533 *PN*: 200
Number of participants: 82,260
Number of active participants: 4,934
Initial date of establishment: 12/26/1942
Effective date of conversion: 4/1/1999
Eligibility requirements for inclusion under grandfather provision: Age 55 or older or a combined age and years of service of 70 or more on 3/31/1999. All participants meeting eligibility requirements are grandfathered into prior plan benefit structure.
Percent of participants included under transition provision: 22%.
Note: Plan frozen to new entrants as of 3/31/1999

II. Grandfathered participants received the greater of a benefit calculated under the pre-exiting formula or the cash balance formula

<u>AT&T Pension Plan</u> (for bargaining unit and other non-management employees)
EIN: 134924710 *PN*: 005
Number of participants: 78,467
Number of active participants: 21,524
Initial effective date of plan:10/1/1980
Effective date of conversion: 7/1/1999
Eligibility requirements for inclusion under grandfather provision: Participants with 15 or more years of service as of 6/30/1998 who elect to receive an annuity receive the higher of the benefit calculated under the prior plan formula or the cash balance formula. Those who elect to receive a lump sum receive the value of the cash balance account.
Length of period during which transition provisions apply for eligible employees: Until retirement or termination.
Percent of participants included under transition provision: 31%

BP Retirement Accumulation Plan
EIN: 361812780 *PN*: 050
Number of participants: 115,342
Number of active participants: 25,481
Initial date of establishment: 10/1/1932
Effective date of conversion: 1/1/1989
Eligibility requirements for inclusion under grandfather provision: Age 50 as of date of conversion.
Length of Period during which transition provisions apply for eligible employees: No limit. "Benefit will not be less than the actuarial equivalent of a single life annuity under the Prior Plan provisions."
Percent of participants included under transition provision: 29%

Northrop Grumman Pension Plan

EIN: 954840775 *PN*: 030
Number of participants: 112,591
Number of active participants: 41,054
Initial date of establishment: 1/1/2000
Effective date of conversion: 7/1/2003
Eligibility requirements for inclusion under grandfather provision: None - all participants in prior final pay plan are eligible.
Length of Period during which transition provisions apply: 5 years - from 7/1/2003 to 6/30/2008. During this period, each participants earns a benefit under both the old final pay benefit formula and the cash balance formula and receives the higher of the two plan transition benefits at retirement. The transition predecessor plan benefit will reflect pay increases through the retirement date. All service after the end of the 5-year transition period will accrue benefits based on the cash balance formula.
Percent of participants included under transition provision: 100%

Federated Department Stores, Inc Cash Account Pension Plan
EIN: 133324058 *PN*:012
Number of participants: 154,981
Number of active participants: 76,122
Initial date of establishment: 1/1/1984
Effective date of conversion: 1/1/1997
Eligibility requirements for inclusion under grandfather provision: Age 50 and 5 years of service (and 10 years of service by end of 5-year transition period).
Length of Period during which transition provisions apply: Until retirement but must attain age 55 and 10 years of vesting service prior to 1/1/2001. This date is 5 years after the conversion became effective. For eligible participants annuity benefit payments, other than single life annuity benefits, cannot be less than annuity benefits would have been if the participant's 1996 pension plan benefit formula had continued in effect. Participants choosing a J&S or 10-year certain benefit receive the higher of the benefit

calculated under the old or new formula. Participants choosing a single life annuity receive a benefit based on the cash balance account.
Percent of participants included under transition provision: 31%

Wells Fargo & Company Cash Balance Plan
EIN: 410449260 *PN*: 001
Number of participants: 140,893
Number of active participants: 95,096
Initial date of establishment: 1/1/1949
Effective date of conversion: 7/1/1999
Eligibility requirements for inclusion under grandfather provision: Age 45 and 5 or more years of credited service.
Length of period during which transition provisions apply for eligible employees: Until retirement or termination. Transition benefit calculation provides the greater of the Cash Balance Plan account or the benefit determined under the prior final average pay formula.
Percent of participants included under transition provision: 22%
Note: Transition provisions vary for different subsidiary companies.

Bank of America Pension Plan
EIN: 560906609 *PN*: 001
Number of participants: 208,467
Number of active participants: 122,014
Initial date of establishment: 1/1/1973
Effective date of conversion: 7/1/1998
Eligibility requirements for inclusion under grandfather provision: Age 50 and 10 years of vesting service and age plus vesting service equals or exceeds 65 by 12/31/1998.
Length of Period during which transition provisions apply for eligible employees: 5 and 1/2 years - from 7/1/1998 to 12/31/2003. Benefits continue to accrue under the prior plan formula during this period but using the pay level as of 1997 (year before conversion).
Percent of participants included under transition provision: 14%.
Note: Transition provisions vary for employees of different subsidiary companies.

Qwest Pension Plan
EIN: 841339282 *PN*: 005
Number of participants: 106,116
Number of active participants: 43,938
Initial date of establishment: 1/1/1984
Effective date of conversion: 1/1/1997
Eligibility requirements for inclusion under grandfather provision: Age plus service of 55 or more.
Length of period during which transition provisions apply for eligible employees: Until retirement or termination. Employees meeting requirement receive the greater of the benefit accrued under the prior final pay formula or the cash balance formula.

Percent of participants included under transition provision: 56% of non-management employees.
Note: Plan covers both management and non-management employees. Only the management employees participate in the cash balance feature.

Aetna Retirement Plan
EIN: 232229683 *PN*: 003
Number of participants: 74,025
Number of active participants: 25,335
Initial date of establishment: 1/1/1955
Effective date of conversion: 1/1/1999
Eligibility requirements for inclusion under grandfather provision: None
Length of period during which transition provisions apply for eligible employees: 8 years - from 1/1/1999 to 12/31/2006. The prior plan final average pay benefit continues to accrue (service and pay) through December 31, 2006. After that date the benefit is frozen. Participant receives higher of benefit accrued under prior final pay formula or cash balance formula.
Percent of participants included under transition provision: 100%

Verizon Management Pension Plan
EIN: 131675522 *PN*: 001
Number of participants: 129,569
Number of active participants: 48,531
Initial date of establishment: 1/1/1940
Effective date of conversion: 1/1/1996
Eligibility requirements for inclusion under grandfather provision: 10 or more years of service as of 1/1/2002.
Length of period during which transition provisions apply for eligible employees: Until retirement or termination. However, for eligible employees, benefits calculated under the former plan's final pay formula are based on the final pay (high five) formula only through 12/31/2007 and career pay from 1/1/2008 until retirement or termination. Participants are divided into 3 groups - East, West, and West Hawaii. A transition employee is defined as an employee with 10 or more years of service as of 1/1/2002. Transition participants receive the greater of the cash balance benefit, the benefit provided under the former plan final pay formula, or the benefits provided under a modified former pension formula (for former Bell Atlantic employees with 15 years of net credited service as of 9/1/1999). Non-transition employees in the West (those with less than 10 years of service) hired prior to 1/1/2002 accrue transition benefits that are calculated under the higher of a final pay formula or an integrated formula until 12/31/2004. For transition employees, the transition benefit after 12/31/07 is based on career average pay. For nontransition employees in the West, service benefits after 12/31/2004 are based on the cash balance formula.
Percent of participants included under transition provision: 61%

Note: As a result of various mergers and acquisitions, the plan has several different groups of employees. The actuarial attachment clearly identifies three distinct groups of workers - employees in East, in West (non-Hawaii) and West (Hawaii). The cash balance feature appears to have become effective on 1/1/1996 for employees in the East- South. For employees in the East-North the cash balance feature became effective on 1/1/1998. The cash balance feature became effective for employees in the West on 1/1/2002.

III. Supplemental Pay-Based Credits Provided

<u>Bank One Corporation Personal Pension Account Plan</u>
EIN: 310738296 *PN*: 334
Number of participants: 95,757
Number of active participants: 60,364
Initial date of establishment: 5/1/1899
Effective date of conversion: 1/1/1997
Eligibility requirements for inclusion under grandfather provision: At least 5 years of vesting service as of 1/1/1998 and age 50 or age 45 and age plus service of 55. Participants meeting eligibility requirements receive annual supplemental pay-based credits. Amount of credit varies by age and vesting service. The range is from 1% for participants whose combined age and service are 55-59 and who were age 45-49 as of 1/1/1998 to 8% for participants whose combined age and service is 75 or more and who were age 50 or older as of 1/1/1998.
Length of period during which transition provisions apply for eligible employees: No limit specified.
Percent of participants included under transition provision: 27%
Note: Various grandfather provisions exist covering groups of former Bank One employees based on pension plans that were merged into the Bank One plan as a result of acquisitions. For example, former First Chicago NBD employees with age+service>=65 receive benefits calculated under the plan formula that existed prior to date of merger.

<u>National City Non-contributory Retirement Plan</u>
EIN: 341111088 *PN*: 002
Number of participants: 54,165
Number of active participants: 25,905
Initial date of establishment: 10/1/1952
Effective date of conversion: 1/1/1999
Eligibility requirements for inclusion under grandfather provision: Ages 50-54 with 15-19 years of service or age 55 with at least 10 years of service.
Length of period during which transition provisions apply for eligible employees: Participants meeting eligibility requirements receive an additional pay credit of 5% per year until 12/31/2008.
Percent of participants included under transition provision: 17%

IV. Other Types of Supplemental Credits to Benefits Accrued at Time of Conversion

The Pension Value Plan for Employees of the Boeing Company
EIN: 430400674 *PN*: 029
Number of participants: 132,103
Number of active participants: 107,323
Initial date of establishment: 1/1/1999
Effective date of conversion: 1/1/1999
Eligibility requirements for inclusion under grandfather provision: None.
Type of transition benefit: Accrued benefits as of conversion date increased in relation to growth in base pay. Transition benefit calculated by multiplying benefit accrued under prior plan as of 12/31/98 by the ratio of the indexing pay to the indexing base (highest annual base pay rate on any date on or after the transition date divided by the annual base pay rate as of the transition date).
Percent of participants included under transition provision: 100%
Note: Transition provisions vary for employees of different subsidiary companies.

American Express Retirement Plan
EIN: 134922250 *PN*: 005
Number of participants: 53,115
Number of active participants: 38,511
Initial date of establishment: 5/1/1985
Effective date of conversion: 7/1/1995
Eligibility requirements for inclusion under grandfather provision: Age 46 or older
Type of transition benefit: For participants who were over age 45 on 6/30/1995, the present value of the 6/30/1995 accrued benefit was increased by a percentage of the value of the early retirement benefit payable under the prior plan at the participant's earliest retirement date (age 55 with 10 years of service for parent company employees, or age 55 for a subsidiary's prior plan participants). The percentage for participants eligible for early retirement on 6/30/1995 was 100%. The percentage for participants not yet eligible for early retirement on 6/30/1995 was 100% minus 10% for each year from 6/30/1995 to the participants earliest retirement date (but not less than 0%).
Percent of participants included under transition provision: 20%

V. Plans With Multiple Types of Transition Provisions

IBM Personal Pension Plan
EIN: 130871985 *PN*: 001
Number of participants: 348,011
Number of active participants: 135,060
Initial date of establishment: 9/1/1945
Effective date of conversion: 7/1/1999
Type of transition provision: The plan provides for 3 types of transition provisions:

1. Choice of inclusion in prior plan final pay benefit structure or cash balance benefit structure.

Eligibility requirements for inclusion under grandfather provision: One year of active employment and: a) within 5 years of retirement eligibility (completion of 30 or more years of service, at age 55 after completing 15 or more years of service, at age 62 with 5 or more years of service, or age 65 with 1 or more years of service); or b) age 40 with 10 or more years of service.

Length of period during which transition provisions apply for eligible employees: One time option to stay with old plan or switch to cash balance plan.

2. Supplemental pay-based credit.

Eligibility requirements for inclusion under grandfather provision: Meets eligibility requirements under 1 above and chooses to join cash balance plan, or age 40, or age plus eligible service of at least 50.

Length of period during which transition provisions apply for eligible employees: The earlier of the 30 year anniversary of benefit service or 6/30/2009 (the 10-year period from 7/1/1999-6/30-2009).

Eligible participants have monthly earnings multiplied by Transition Pay Credit Rate. Amount of credit rate varies by age and service on 6/30/1999. Range is from 1% for participants age 40 or with combined age plus service of 50-54 to 4% for participants with combined age plus service of 65 or more.

3. Subsidized annuities.

Participants in cash balance plan who meet eligibility requirements under 1 or 2 above and who separate with 30 years of service, or at age 55 with 15 years of service, or at age 62 with 5 years of service. The annuity is based on an enhanced interest rate that varies depending on the age of the participant at benefit commencement and the length of time from 6/30/1999 to earliest retirement eligibility age.

Percent of participants included under transition provisions: 42%

<u>SBC Pension Benefit Plan</u>

EIN: 431301883 *PN*: 006

Number of participants: 163,900

Number of active participants: 74,308

Initial date of establishment: 1/1/1984

Effective date of conversion: 6/1/1997

Eligibility requirements for inclusion under grandfather provision: None - all non-bargaining unit participants at time of conversion eligible.

Length of period during which transition provisions apply for eligible employees: 5 years - from 6/1/1997 to 5/31/2002.

Type of transition provision: The plan provides two types of transition provisions. The first type provides the higher of the cash balance benefit or a monthly benefit of 1/12th of 1.6% of the adjusted career income (the formula differs for employees eligible for the Enhanced Management Pension). Grandfathered benefit accruals ceased on 5/31/2002. The second type provides transition credits to the cash balance account. For all participants at time of conversion, a transition benefit account is set up. The initial value

of the Transition Benefit Account is equal to the excess (if any) of the Cash Balance Pay in 1996 (with some modifications) times an enhanced opening balance factor over the Basic Account Opening Balance. The enhanced opening balance is equal to the sum of the following: 1) A factor representing the hypothetical account balance the employee would have accumulated since date of hire based on the following assumptions: 5% of pay credits, 8% interest credits, and a 4% salary increase assumption. II) A transition factor based on points (i.e., age+service) at 6/1/1997. The factor is .01 for each point in excess of 25, plus an additional .02 for each point in excess of 40, plus an additional .02 for each point in excess of 50. The maximum transition factor is 1.25. Each month, the Transaction Benefit Account is credited with interest and is decreased by the amount of transition credits transferred to the Cash Balance Account. The transition period ended on 6/1/2002.
Percent of participants included under transition provision: 100% of non-bargaining unit employees.
Note: Plan covers both bargained and non-bargained employees: only non-bargained employees covered under cash balance feature. In addition, different provisions apply to employees of some subsidiaries.

VI. Plans with no transition provisions found

<u>AT&T Management Pension Plan</u>
EIN: 134924710 *PN*: 006
Number of participants: 87,286
Number of active participants: 32,339
Initial date of establishment: 10/1/1980
Effective date of conversion: 1/1/1998
There is no indication in the Form 5500 attachments that the plan has a transition provision.

<u>Washington Mutual, Inc Cash Balance Pension Plan</u>
EIN: 911653725 *PN*: 001
Number of participants: 66,050
Number of active participants: 41,158
Initial date of establishment: 1/1/1944
Effective date of conversion: 1/1/1987
The plan provided an early retirement subsidy for participants with 10 or more years of service on 12/31/1986 who elected early retirement at age 55 or later. For this group, the early retirement benefit is based on the normal retirement benefit (at age 65) accrued at the time of actual retirement, with no actuarial reduction if payment commenced at age 62 or later. Otherwise, the normal retirement benefit is reduced by 4% for each year prior to age 65 that early retirement occurs. Effective 10/1/1995, the early retirement benefit was eliminated prospectively. However, the actuarial value of the benefit on 9/30/1995 was preserved under the Plan for participants who would otherwise be eligible for it.

APPENDIX B
Methodology

Identification of Large Cash Balance Plans

The 25 plans examined were identified from a PBGC list of DB plans that entered a code for a cash balance feature on their 2003 Form 5500 filings. The list was sorted in descending order by number of participants. The latest Form 5500 filing available from the Labor Department was analyzed. The 2003 filing was used for 24 plans and the 2001 filing for 1 plan. One of the 25 largest plans on the PBGC list was a pension equity plan and the plan provision data included as an attachment to the Form 5500 for another plan gave no indication that the plan had a cash balance feature. The two next largest plans on the list were substituted for these two plans.

Coding of Transition Provisions and Eligibility Requirements

While some of the sponsors of the cash balance plans had separate DB plans (which may or may not have been cash balance) covering different groups of workers such as management and non-management employees, most of the sponsors had only a single DB plan covering all employees of the parent company and often the employees of subsidiary companies. In these plans, different groups of employees, and often the employees of different subsidiary companies, were covered under different pre-cash balance benefit formula structures.

The addition of a cash balance formula to the existing multiple benefit formulas, together with amendments containing transition provisions, added a further layer of complexity to the plans. Almost half of the plans with transition provisions had separate, distinct transition provisions for different groups of participants. While some of the filings provided data on all of the different provisions and eligibility requirements, most did not.

Where transition provisions differed for different groups of employees or different subsidiaries, the provision applicable to the parent company employees or what appeared to be the largest group of participants was coded.

Two of the plans covered bargaining unit workers that were not subject to the cash balance feature. A few other plans excluded participants from the cash balance feature who were originally covered under plans that were merged into the cash balance plan as a result of acquisitions. The participant count reported on the Form 5500 of these plans overstates the number of participants covered under the cash balance formula and the transition provisions.

Data Quality and Completeness

The instructions to the Form 5500 require that a Statement of Actuarial Assumptions/ Methods and a summary of the principal eligibility and benefit provisions on which the funding valuation was based be attached to the Schedule B of the Form. Single-employer plans covered by PBGC are also required to provide data on the age and service distribution of active participants. All of the filings complied with this requirement. None of the plans provided (nor were they required to provide) the provision data in the form of a Summary Plan Description that is required to include all relevant plan information in a format designed to be understood by the average plan participant. Instead, the filings tended to meet the minimum requirements by including a summary section in an outline format of key provisions that affected the calculation of plan liabilities. This sometimes required interpretation. For example, only a few of the summary attachments specifically stated the date when the cash balance feature became effective. For most plans the date of conversion was inferred from the date the opening cash balance was set up. If this date was missing, the date for meeting the age/service requirements of the grandfather provisions was used.

For a few plans, the plan provisions were restated following a major merger or major change in plan provisions. For example, the SBC Pension Benefit Plan states that: “As of June 1, 1997 for SBC participants, July 1, 1996 for PTG participants and January 1, 1996 for SNET participants the Cash Balance Account is set equal to the account opening balance of the respective predecessor plans.” In a different section the plan documents stated that employees hired after June 1, 1997 are not eligible for the Grandfathered Accrued Benefit. The date of conversion for this plan was coded as 1/1/1997, although the plan description strongly indicates that a cash balance feature existed prior to this date for SBC employees.

Estimates of Percentage of Active Participants Covered Under Transition Provisions

The table on the age and service distribution of active participants included in the attachments of each of the 25 plans was used to estimate the percentage of active participants included under the transition provision. To estimate the percentage of active participants meeting an age 45 and 10 year service requirement, for example, the number of active participants age 45 and older and with 10 or more years of service was divided by the total number of active participants in the table. The tables used were usually as of the beginning 2003 plan year. This date was several years after the date of conversion for most plans. The overall impact of this difference is not known but for the plans of companies that have downsized in recent years, the beginning year 2003 distribution table is likely to contain a higher percentage of older long-term participants than the distribution at the time of conversion, resulting in an overestimate of the percentage of participants covered under the transition provision.