



WOODS HOLE OCEANOGRAPHIC INSTITUTION

Date: April 4, 2007

To: All WHOI Employees

From: Emily Schorer
Director of Human Resources

Re: Pension Protection Act – What it Means for You

Few matters are of as much personal importance to the Institution's employees as the benefits package and, specifically, our pension plan. Because of this, it is not surprising that any mention of possible changes to our plan generates much discussion and some anxiety.

On February 14th, Jim Luyten held two Institution meetings in which he addressed, among other things, the Pension Protection Act of 2006. During these meetings, he announced the creation of a new committee made up of Trustees who will be reviewing the impact of this act as it relates to the funding and structure of WHOI's pension plan.

Some of you may be worried that this act somehow compromises the stability of our plan. As such, I would like to provide an overview of what this new legislation means for WHOI and its employees. For newer employees, I am also including a brief background of the issues we have faced with our plan in recent years.

Although we will be investigating ways to change how this plan is paid for, it is important for you to know that regardless of any changes the Institution makes to the plan, **the retirement benefit that you have earned cannot decrease.**

Background

Each year, independent actuaries calculate the amount that WHOI should contribute to our pension plan. While this calculation takes into account a number of factors, one of the most important aspects is the plan's funded status – that is, the relationship between our fund's investments (assets) and the plan's obligations (the value of benefits already earned by retirees and employees).

For a number of years, WHOI's plan assets exceeded plan obligations, resulting in a surplus of funds. Because of this surplus, WHOI was not permitted to make government reimbursable contributions to the plan.

With the downturn in the stock market in 2001 – 2002 and falling interest rates, WHOI's plan, along with pension plans at many other organizations, became underfunded. As a result, WHOI's projected contribution requirements exceeded the levels which could easily be absorbed into our overhead budget.

To address this issue, WHOI convened an ad-hoc Retirement Task Force in 2004 to help review our retirement plan design and to evaluate options that would make the program more affordable. As a result of the work of our task force, changes were introduced to our pension plan on January 1, 2006. With these changes, the projected funding requirements for the plan were decreased to levels that we believed would be supportable for both the short term and the long term.

Pension Protection Act of 2006

On August 17, 2006, President Bush signed the Pension Protection Act of 2006. This landmark legislation introduced sweeping changes to the rules governing employer sponsored retirement programs. From WHOI's perspective, the most important provisions of this new legislation are the rules for funding pension plans.

The Current Challenge for WHOI

The new law, which becomes effective in 2008, shortens the period in which employers with underfunded pension plans must make up the shortfall. For WHOI, this means that projected contributions for the next several years will be significantly higher than the contributions required prior to the passage of this law. To put things in perspective, if WHOI satisfies the new funding requirements within the normal budget (i.e. from overhead), the multiplier would increase from 2.89% to approximately 3.09%. During this period of increasing competition for funding, a change in our multiplier of this magnitude is unacceptable.

This is the financial challenge we are currently faced with and it will require guidance from our Trustees. Their new committee held its first meeting on March 19th. Additionally, we have reestablished the employee ad hoc retirement committee, which will look for ways to implement the Trustee committee's recommendations.

What This Means for You

In closing, there are a couple of important points which I would like to stress. First, as the name implies, the Pension Protection Act is designed to protect pension plans and the employees who rely on those plans. The requirements under the new law, however, will force many organizations to review their plans.

Second, protecting the Institution's retirement plan is seen by Institution management and the Board of Trustees as a prime responsibility. It is also important for you to remember that if the Institution makes any changes to the plan in the future, **the retirement benefit**

that you have earned cannot decrease. This right is protected under the Employee Retirement Income Security Act (ERISA).

We will continue to update you on this subject as more information becomes available. In the meantime, should you have any questions, please feel free to contact me (x3562, eschorer@whoi.edu) or Susan Cina, Benefits Manager (x2217, scina@whoi.edu).

In addition to this memo, you may wish to access one of these websites for additional information:

Jim Luyten's 02/14/07 presentation:

<http://www.whoi.edu/sbl/liteSite.do?litesiteid=11452&articleId=22468>

Pension Protection Act Fact Sheet:

<http://www.whitehouse.gov/news/releases/2006/08/20060817.html>