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Pension Changes from COVID Relief: Multi-Employer Plans

By Keith Nichols, EA, FCA, MAAA

The fifth round of COVID relief, the *American Rescue Plan Act of 2021 (ARPA)* was signed by President Biden on March 11, 2021. There are several changes in the details of the law that affect pension plan sponsors. This article focuses on changes to multi-employer plans. If you are a sponsor of or participate in a single-employer plan, please check out our update on those changes here: *Pension Changes from COVID Relief: Single Employer Plans*.

Like the changes to the single employer system, the changes to the multi-employer system also contained modifications to reduce the amount of the annual required contribution, however, the primary purpose of the law was to provide governmental financial assistance to significantly underfunded plans.

Special Financial Assistance

Troubled multi-employer plans will be eligible to receive funding from the PBGC necessary to keep the plan solvent until at least 2051, with no reduction in participant benefits. Eligible plans include:

1. plans in critical and declining status for any plan year beginning in 2020 through 2022
2. plans that have approved benefit suspensions
3. plans in critical status with a modified funded percentage of less than 40%, and a ratio of active to inactive participants which is less than two to three
4. plans that became insolvent after December 16, 2014, and have remained insolvent and not been terminated

Any plan receiving special financial assistance would be deemed to be in critical status until the last day of the plan year ending 2051. The funds received would be segregated from other plan assets and only invested in investment grade bonds or other investments permitted by the PBGC. Any benefit reductions from a previously approved benefit suspension would have to be reinstated prospectively for participants and beneficiaries and no future suspensions would be permitted.

Plans have until December 31, 2025, to apply to the PBGC for special funding assistance. Once submitted, the PBGC will have 120 days to reject the application. If the application is not rejected within 120 days, it is deemed to be approved. If the original submission is rejected, funds would have until December 31, 2026 to submit a revised application.

One of the primary differences between the new law and the original *Butch Lewis Act* is that in the original bill the PBGC financial support was in the form of a loan that was to be paid back over 30 years. The new law does not contain this requirement.

The PBGC is required to provide regulatory guidance within 120 days of the enactment of the Law.

Delayed Status Recognition and Extended Recovery Periods

The new law allows plans to delay the recognition of any funding status changes (Endangered, Critical, or Critical and Declining) until the first plan year beginning on or after March 1, 2021 (or the next succeeding plan year) and permits plans with funding improvement or rehabilitation plans not to update their funding improvement or rehabilitation plans and schedules for this designated plan year. In addition, for plans in endangered or critical status for a plan year beginning in 2020 or 2021, the new law allows them to extend their rehabilitation period by five years. These changes allow funds additional time to recover from the economic impact of COVID both on the economy and the financial markets.

Extended Amortization Bases for 2020 Market Losses

Similar to legislation passed after market declines in 2008 and 2009, plans would be permitted to amortize the impact of investment losses for the first two plan years ending after February 29, 2020 over a 30 year period. This is an extension of the current requirement to amortize gains and losses over a 15 year period.

Increase in PBGC Premiums

The new law will increase the PBGC premiums paid by multiemployer plans from the current $31 per participant to $52 per participant but this doesn't kick in until 2031. Future increases will be indexed for inflation.

Analysis

The new law will provide a lifeline to many multi-employer funds that have been most impacted by the economic changes over the past 15 years. Without this much needed relief, hundreds of thousands of retirees were facing significant reductions in their retirement benefits. Also, the additional time granted to allow Rehabilitation and Funding Improvement Plans and the ability to recognize 2020 investment losses over a longer period will lower the impact of the current economic conditions for many plans.

If you have any questions regarding how the ARPA might have impacts to your multi-employer pension plan, we encourage you to contact the Findley consultant you normally work with, or contact us at *info@findley.com*.