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Pension Changes from COVID Relief: Single Employer Plans

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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 Single Employer plans. If you are a sponsor of or participate in a multi-employer plan, please check out our update on those changes here: *Pension Changes from COVID Relief: Multi-Employer Plans*.

While changes to the multi-employer system were designed to provide funding to significantly underfunded plans, the single-employer changes were designed to reduce the funding requirements for plans for the rest of the decade.

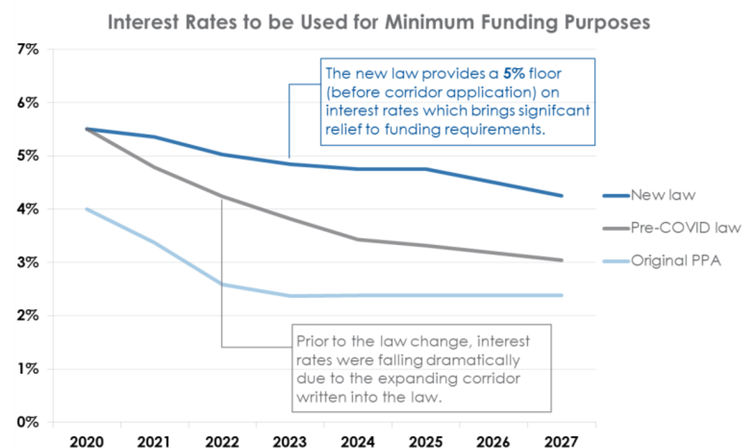
Extended Amortization Period

Since the *Pension Protection Act (PPA)* went into effect in 2008, the actuary calculates the change in the funded status of the plan every year. A new base is set up each year to amortize unexpected changes in the funded status over seven years. As a result, most plans currently have seven amortization bases. The new law wipes away all the old bases and resets all underfunding in one new base. This base, and all future bases, will be amortized over 15 years instead of seven. This would be similar to refinancing a loan over a new longer period in order to reduce the required payment.

Extension of Interest Rate Stabilization

As interest rates continue to hover near historical lows, pension plan sponsors feel the pinch. Since pension liabilities are discounted using bond yields, low yields make for higher liabilities. The original Pension Protection Act (PPA) law was set to use a 24-month average of corporate bond rates. Later, an upper and lower boundary was created based on a 25-year average of corporate bond rates for the purpose of determining the minimum required contribution. The boundaries were set to start expanding in 2021 and effectively would have been fully phased out by 2024. Because current interest rates are lower than historical rates, this would lead to higher required contributions at a time when businesses can least afford them. Hence, the need for a law change.

Under the new law, the corridor's range is being narrowed and won't start widening until 2026. This will keep rates more level and mitigate the impact of the currently low interest rates for years. Finally, in an attempt to avoid having to re-visit these rules again if interest rates remain at historical lows, a 5% floor has also been added. Meaning, the interest rate used to determine the required contribution won't drop below 5.0% regardless of market conditions. The chart below will help you understand how much the new law moves the needle.



Other Items

It is important to note that the extended amortization period can be <u>retroactive</u> to plan years beginning in 2019 and the extension of interest rate stabilization can be <u>retroactive</u> to plan years beginning in 2020. Even though many valuations have already been completed it may be advantageous to revise those reports in order to take advantage of the new law.

There also is the ability to not have the new law apply until 2022. An election form will be needed for most plan sponsors regardless as sponsors can specify not only when the new law applies but also for which

purposes. There is also an extension of special funding rules that apply only to community-based newspapers.

Analysis

It is important to note what is not included in the relief package: reductions to *PBGC premiums*. Contrary to the PBGC Multiemployer Trust which was projected to go bankrupt in 2026, the Single Employer Trust is overfunded and projected to increase overfunding each year moving forward. However, even with this projected overfunding neither of the changes outlined above alter the skyrocketed premium increases that occurred during the last decade.

It is important for plan sponsors to keep in mind that making lower contributions will likely increase their PBGC premiums and the management of those premiums will be a significant driver of funding decisions in the future. Even with lower contribution requirements, it may be prudent to make higher contributions in order to improve the plan's funded status and lower PBGC premiums.

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

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