



Pension Funding Relief Signed into Law

President Obama signed the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (the "Act") on June 25th. In addition to reversing certain reimbursement rate cuts to Medicare providers, the Act provides significant funding relief for defined benefit plan sponsors.

Primarily, the Act permits plan sponsors to elect to stretch out the payments for plan underfunding, with certain restrictions. Under the Pension Protection Act ("PPA"), pension underfunding is typically amortized over a seven year period. The Act permits certain portions of the underfunding to be spread under one of two alternative methods:

1. "Two Plus Seven Year" amortization: for a given amortization base, this would result in interest-only payments for the first two years, then continue with the original seven year amortization payments. (By comparison, the interest payment in the first two years would be about **62%** less than the seven year amortization payment.)
2. "Fifteen Year" amortization: this would reduce the applicable amortization payments by about **41%** (but they would continue for fifteen years instead of seven).

Note that this relief does not affect a plan's target normal cost (i.e., the value of any benefits accruing to active participants during the plan year, plus certain plan expenses), or amortization payments

already scheduled from years prior to adoption. Only the new shortfall balance for a given plan year is affected. The example on the following page illustrates the impact.

The election may be made for two of the plan years beginning 2008 (if still open), 2009, 2010 or 2011. Plan sponsors electing either amortization alternative would have to notify plan participants, as well as the PBGC.

Additional amounts would have to be contributed under certain circumstances: e.g., if payments to an individual in the controlled group of corporations are in excess of \$1 million, or the company has extraordinary dividends or share redemptions.

It is important to keep in mind that electing to stretch out the payments will slow the progress of reducing a plan's underfunding, and increase the chances that a plan may fall below certain funding thresholds (80%/60%). However, many plan sponsors will welcome the opportunity to reduce their contributions in the near term.

The Act also contains provisions that would permit a look back to the plan year beginning in 2008 for determining the funded status of the plan for certain benefit restrictions that might otherwise be applicable for 2009 and 2010.

USI consultants are prepared to assist you in understanding the potential impact of this important new law.

Benefits *in Focus* is a publication circulated by the USI Consulting Group Legal Department and is designed to highlight various employee benefit matters of general interest to our readers. It is not intended to interpret laws, regulations or to address specific client situations.

The information contained herein is meant for general educational purposes only. For specific securities offerings, investment advice or insurance services, please consult your USI financial professional.

Investment Advice provided by USI Advisors, Inc., 95 Glastonbury Blvd., Glastonbury, CT 06033, (860) 633-5283.

Illustration of Amortization Alternatives

If a Plan had a new \$6 million shortfall amortization base in 2010, under PPA the Seven Year Amortization could be \$1 million per year. (The actual amortization payments depend on the interest rates in effect for that year. The figures below are for illustration only.)

Under alternative (1), Two Plus Seven, the schedule would stretch to nine years, with the first two payments of \$384,000, and then seven payments of \$1,000,000.

Finally, under alternative (2), the Fifteen Year schedule, the payments would be \$594,000 for each of the next fifteen years (2010 through 2024).

Again, the normal cost and prior year amortization payments are not affected.

The following chart shows the comparison:

Amortization Alternatives			
Year	Seven Year Amortization under PPA	"Two Plus Seven Year"	"Fifteen Year"
2010	\$1,000,000	\$384,000	\$594,000
2011	\$1,000,000	\$384,000	\$594,000
2012	\$1,000,000	\$1,000,000	\$594,000
2013	\$1,000,000	\$1,000,000	\$594,000
2014	\$1,000,000	\$1,000,000	\$594,000
2015	\$1,000,000	\$1,000,000	\$594,000
2016	\$1,000,000	\$1,000,000	\$594,000
2017		\$1,000,000	\$594,000
2018		\$1,000,000	\$594,000
2019			\$594,000
2020			\$594,000
2021			\$594,000
2022			\$594,000
2023			\$594,000
2024			\$594,000