USI CONSULTING GROUP

RETIREMENT PLAN SPOTLIGHT

MARCH | 2021

Pension Changes from COVID Relief: Single Employer Plans

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.

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.

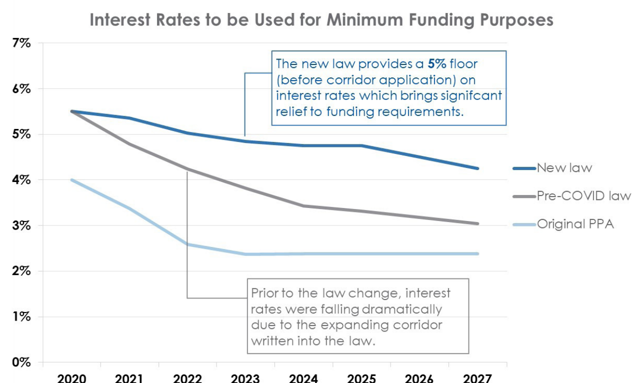
Extended Amortization Period

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 that follows 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 retroactive to plan years beginning in 2019 and the extension of interest rate stabilization can be retroactive 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, please contact your USI Consulting Group representative or email us at *information@usicg.com*.

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Pension Changes from COVID Relief: Multi-Employer Plans

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.

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 be impacting your multi-employer pension plan, please contact your USI Consulting Group representative or email us at *information@usicg.com*.

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