SAGE VIEW

Pension Funding Relief

The American Rescue Plan Act of 2021 was passed by Congress on March 10 and has been signed into law. The legislation provides significant relief to single employer pension plan sponsors by changing the methodology and discount rates used to determine minimum required contributions. In addition, Congress projects the changes to increase revenue by $23 billion over a 10-year period via lower corporate tax-deductible contributions.

What we know: based on the Act

Discount rates used to calculate plan liabilities will be higher than anticipated resulting in lower plan liabilities and lower required contributions.

- IRS discount rates for calculating plan liabilities have been phasing from a 25-year average to a 24-month average through 2024. They will now re-set to a 25-year average and phase out from 2026-2030 resulting in higher effective discount rates.
- Plan sponsors can elect to use the higher rates retroactive to 2020 or apply them beginning in 2022. It is unclear whether an election can be made to begin using higher rates in 2021 but that would seem to make sense and hopefully will be addressed by regulation.

Shortfall amortization periods will be longer resulting in lower required contributions for underfunded plans.

- Funding shortfalls are currently amortized over a 7-year period. The legislation changes that to a 15-year amortization beginning in 2022 or retroactive as far back as 2019 at the election of the plan sponsor. All previous shortfall balances will be set to zero. The difference is significant for a plan with a funding shortfall, swapping a 15-year mortgage for a 7-year mortgage.
- This change has no impact on a plan with no funding shortfall.

What we don't know: subject to regulation

- How do you handle contributions already made for 2019 and 2020 plan years that will now be retroactively deemed higher than required?
  - A credit to apply against future contributions would make sense.

- What about elections made in prior years to waive credit balances, etc. that will now be deemed retroactively unnecessary?
  - Perhaps previous elections could be revoked.

- Will Forms 5500 filed for prior years need to be amended and re-filed?
  - Or perhaps an attachment will be required with the next filing.

- Will the PBGC step in and require additional reporting or higher premiums for plans that will be more poorly funded in the future because of lower contributions?
  - Stay tuned on this one. There is an argument that fewer companies might become insolvent in the future because of lower pension contributions, thereby lessening the burden on the PBGC. We will see how far that one goes.

What doesn't change

- The Act has no impact on pension expense or financial accounting under ASC 715, so there is no relief with respect to financial reporting and disclosure.
- The Act has no impact on lump sum benefits or annuity pricing. If you are hoping to eventually terminate an underfunded plan, lower contributions now will result in larger contributions later, all else being equal.
- Absent any additional action by the PBGC, the Act does not change the discount rates used to calculate PBGC variable rate premiums or liabilities used to trigger various PBGC filings, nor does it change the PBGC premium rates or rate cap.

Pension Funding Relief

What to do in the short term

- Quarterly contributions due April 15, 2021 or sooner
  - There is a 30-day grace period before a late contribution results in a PBGC reportable event so you might hold off on these until further guidance is issued. In many cases these contributions will be reduced or no longer required.

- Contributions for 2020 calendar year plans due September 15, 2021
  - There will be sufficient time to address these via regulation and in many cases, these will also be reduced or no longer required.

- Consult with your actuary (SageView or otherwise) to determine how and when you might best take advantage of the Act based on your business needs and short/long term objectives for your plan.

This summary is an attempt at a brief layman's explanation of the implications of a very complex piece of legislation and is by no means intended to be all-encompassing. There is still a lot unknown as far as the implementation of the changes attributable to the Act. We will do our best to stay on top of developments and communicate them as additional guidance is issued.