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Mercer urges additional funding relief for DB plans

By Geoff Manville and Margaret Berger
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While applauding recent stopgap funding relief (Pub. L. No. 116-136) for defined benefit (DB) plans, Mercer is urging Congress to enact longer-term funding reforms to help single-employer plan sponsors weather the anticipated lengthy recovery from the COVID-19 pandemic. Additional long-term relief would "give employers the ability to direct financial resources toward sustaining their businesses and preserving current jobs," Mercer President and CEO Martine Ferland says in an April 7 letter to congressional leaders and the Trump administration.

Push for more funding relief

Ferland's letter recommends two key forms of additional funding relief as "critical to enhancing the speed and strength" of the economic recovery:

- Lengthen the amortization period for funding shortfalls. For example, extending the amortization period to 15 years instead of the currently required seven years "would provide meaningful relief," the letter says.

- Continue interest rate relief beyond 2020. Since 2012, many plans have used a "stabilized" interest rate methodology that allows use of relatively higher discount rates. These rates result in lower required contributions than would otherwise be the case but are slated to start phasing out in 2021.

Congress and the Trump administration are actively considering these and other pension funding reforms as part of developing "Phase 4" economic aid legislation that could see action within weeks. Earlier legislation proposed by House Democrats included some of these funding reforms. But Republicans were reluctant to package reforms for single-employer plans with financial aid for multiemployer plans and raised concerns about imposing new costs on the PBGC and taxpayers.

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Ferland acknowledges the PBGC cost concerns in her letter. However, she notes that single-employer plan funding relief "would afford companies a greater chance of surviving in the longer term by allowing them to direct additional financial resources toward their most urgent business needs, thereby reducing the likelihood of near-term bankruptcies."

In an earlier March letter to congressional leaders and the Trump administration, Ferland called for a delay in required 2020 contributions, as well as benefit restriction relief. Those provisions are included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Related resources

Non-Mercer resources

- Pub. L. No. 116-136, the CARES Act (Congress, March 27, 2020)

Mercer Law & Policy resources

- Stimulus bill gives DB funding relief, access to DC savings (March 26, 2020)
- Roundup: COVID-19 resources for employers (regularly updated)

Mercer resources

- Martine Ferland's letter to Senate leaders (Mercer, April 7, 2020)
- Martine Ferland's letter to Senate Finance Committee (Mercer, March 18, 2020)
- Stay informed on the coronavirus (regularly updated)