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Democrats revive pension funding relief, multiemployer plan reforms

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Key House Democrats are proposing funding relief for single-employer pension plans and extensive reforms to help troubled multiemployer plans, with hopes of advancing the legislation as part of President Joe Biden's $1.9 trillion coronavirus relief plan. The Emergency Pension Plan Relief Act of 2021 contains the same single-employer plan relief and largely the same multiemployer plan reforms as last year's House-passed Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act (HR 6800). While Biden's preference is to enact a bipartisan aid package, Republican resistance to his plan has Democrats preparing to use the budget reconciliation process. Reconciliation bills can pass the Senate with a simple majority vote rather than the typical 60-vote threshold, but must have a direct effect on federal revenue. The pension measures may need tweaking to comply with the reconciliation rules.

Funding relief for single-employer plans

The legislation contains two key forms of additional funding relief backed by Mercer and the pension community: continued interest rate relief beyond 2020 and permanent lengthening of the amortization period for funding shortfalls.

To extend and enhance interest rate relief, the bill would narrow the current 10% interest rate corridor to 5%, effective retroactively to 2020, and delay the phaseout of the 5% corridor from 2021 until 2026. At that point, the corridor would increase by 5 percentage points each year until it reaches 30% in 2030, where it would stay. In addition, a 5% floor would apply to 25-year interest rate averages to provide protection from extreme interest rate movements.

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The bill also calls for amortizing all funding shortfalls over 15 years, rather than seven years. This would mitigate the effects of recent significant increases in funding shortfalls due to low interest rates and market volatility, Mercer CEO Martine Ferland said in a letter to lawmakers last year.

Help for multiemployer pension plans

The bill would expand the Pension Benefit Guaranty Corp. (PBGC)'s authority to partition troubled multiemployer pension plans and increase the number of plans eligible for partition, while streamlining the application process through 2024. A qualifying plan could receive enough financial assistance to stay solvent and well-funded for 30 years with no benefit cuts. PBGC would receive additional funding for the program.

The legislation also would almost double the PBGC guarantee for multiemployer plans, including those that have been receiving PBGC assistance since December 2014. The current maximum guarantee is $12,870 for participants with 30 years of service. (Unlike the maximum guarantee for single-employer plans, the multiemployer guarantee is not adjusted for inflation.)

In addition, multiemployer plans could no longer apply to the Treasury Department to reduce already-earned benefits under the Multiemployer Pension Reform Act of 2014. Plans in endangered or critical status would not have to update their status until 2021. They would also gain five more years to work on rehabilitation plans, and the 15-year period for making up funding shortfalls would increase to 30 years.

Pandemic exacerbating funding troubles

"The COVID-19 economic downturn has only worsened the multiemployer pension crisis and increased the urgency with which we must act," House Ways and Means Committee Chairman Richard Neal, D-MA, said in a statement announcing the legislation. Around 1.3 million participants are covered by troubled multiemployer plans, the statement notes, and the economic downturn caused by the pandemic will put the benefit security of even more individuals at risk.

Single-employer plan sponsors (and Mercer) have urged lawmakers to respond to the pandemic-related financial challenges and enact the reforms first proposed in the HEROES Act. Help for single-employer and multiemployer plans will likely be tied together, in part because the nonunion reforms raise revenue (by reducing nontaxable plan contributions) that helps offset the cost of rescuing the union plans.

Related resources

Non-Mercer resources

- Emergency Pension Plan Relief Act of 2021 (House Ways and Means Committee, Jan. 21, 2021)
- Press release (House Ways and Means Committee, Jan. 21, 2021)

Mercer Law & Policy resources

- Pension funding relief features in House-passed aid bill (May 18, 2020)
- Mercer urges additional funding relief for DB plans (April 13, 2020)

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