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Pension funding relief, union plan reforms in aid bill near enactment

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In this article

Funding relief for single-employer pension plans and extensive reforms to help troubled multiemployer plans are included in COVID-19 aid legislation heading for President Biden's signature after House approval March 10 — days after the measure passed the Senate. Other provisions in the nearly $2 trillion American Rescue Plan Act (HR 1319) expand funding relief for community newspapers and broaden the group of executives subject to the Section 162(m) limit on tax-deductible compensation. The president will sign the bill within days.

Funding relief for single-employer plans

The legislation contains two key forms of single-employer 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 narrows the current 10% interest rate corridor to 5%, effective retroactively to 2020, and delays the phaseout of the 5% corridor from 2021 until 2026. At that point, the corridor will increase by 5 percentage points each year until it reaches 30% in 2030, where it will stay. In addition, a 5% floor will apply to 25-year interest rate averages to provide protection from extreme interest rate movements.

Sponsors can choose to disregard the interest rate relief for any plan year beginning before 2022 for all purposes, or solely for determining whether benefit restrictions apply under Internal Revenue Code

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Section 436. This gives sponsors the flexibility to take advantage of retroactively reduced contribution requirements without having to potentially reverse the application of benefit restrictions in earlier years.

The bill also calls for amortizing all funding shortfalls over 15 years, rather than seven years, and resetting all existing shortfall amortization bases to zero. This eases the pressure on plan sponsors that have seen funding shortfalls increase in response to low interest rates and market volatility, as Mercer CEO Martine Ferland said in a letter to lawmakers last year.

Unlike the language passed by the House, the final measure lets employers elect to reflect these amortization changes starting in any year from 2019 to 2022. The choice of when to reflect the shortfall amortization changes is independent of when the sponsor chooses to reflect the interest rate relief.

Help for multiemployer pension plans

A multiemployer plan can defer updating its status for a single plan year beginning in the period from March 1, 2020, through Feb. 28, 2022. A plan in endangered or critical status making this election for a plan year doesn't have to update its funding improvement or rehabilitation plan or schedules until the following plan year. Plans in endangered or critical status for plan years beginning in 2020 or 2021 can also opt for five more years to work on funding improvement or rehabilitation plans, and the 15-year amortization period increases to 30 years for investment losses and other losses attributable to the COVID-19 pandemic.

The bill provides for a temporary special fund to provide financial assistance — in the form of a single lump sum payment — to eligible, poorly funded multiemployer plans. Plans will need to apply for the relief by Dec. 31, 2025, and the fund cannot make any payments after Sept. 30, 2030. Plans can use the relief only to pay benefits and plan expenses, and the measure imposes conditions on how the assistance amounts can be invested. Plans receiving assistance have to reinstate suspended benefits and cannot apply for new benefit suspensions. The plans also will be deemed to be in critical status until the last plan year ending in 2051. The new provisions for direct financial assistance render unnecessary the special partition provisions found in earlier legislation, the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act.

The measure also drops a HEROES Act provision that would have increased the PBGC's guaranteed benefit for multiemployer plans. Instead, the bill provides that multiemployer plan premiums will double from $26 to $52 per participant beginning in plan years starting after Dec. 31, 2030, and will be adjusted for inflation thereafter.

Modified definition of community newspaper plans

The bill modifies the eligibility rules that apply to the special minimum funding standards for community newspaper plans enacted by the Setting Every Community Up for Retirement Enhancement (SECURE)

Act (Pub. L. No. 116-94). The revised definition of community newspaper makes more plans eligible for the SECURE Act's special relief. Sponsors can continue to elect to apply the relaxed funding rules retroactively to plan years ending after Dec. 31, 2017.

Expansion of Section 162(m) highest-paid employees group

To raise revenue and help offset the cost of the multiemployer plan reforms, the bill expands the group of executives subject to the Section 162(m) limit on the tax deduction a company can take for compensation paid to the CEO, CFO and the three next highest-paid officers. Under the bill, the $1 million limit on deductible compensation also applies to a company's next five highest-paid employees beginning in 2027. These employees could later fall out of this second "top five" group.

This provision replaces a proposal in the House version of the bill that would have permanently frozen certain qualified retirement plan contribution and benefit limits at 2030 levels.

Related resources

Non-Mercer resources

- HR 1319, the American Rescue Plan Act (Senate, March 6, 2021)

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- House set to move pension funding relief, multiemployer reforms (March 3, 2021)
- Democrats revive pension funding relief, multiemployer plan reforms (Jan. 25, 2021)
- SECURE Act helps struggling community newspaper DB plans (May 26, 2020)
- 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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