Defined Benefit Pension Plan Issues

Update on Pension Funding Stabilization and PBGC Premiums

March 13, 2020
Proposal for Stabilization of Pension Funding

- Narrow the 10% interest rate corridor to 5%, effective 2020
- Delay the phase-out until 2026, then, as under current law, expand the corridor by 5% annually until it attains 30% in 2030 (remaining there)
- Place a 5% floor on the 25-year interest rate segments
Pension Funding Stabilization Proposal
Legacy Plans

- Targeted stabilization

- Employer’s required minimum contributions for past benefits must exceed \([x \%]\) of the aggregate compensation of the applicable employees of the employer, such as 5%.

- If criteria met, plan would qualify for 15-year amortization.
Long-term Funding Reform

- Hill interest in a broader, permanent solution to on-going funding issues
- Pursuant to specific Hill specs, Council offered a proposal to
  - Adjust interest rates to reflect long-term nature of investments by pension plans
  - Adjust amortization periods to reflect long-term nature of pension promises
  - Effectively, use of segment rates of 4%, 5%, and 6% unless expected rate of return would increase liability.
Current Events’ Impact on Pension Funding

- Funding stabilization even more urgently needed given sudden shifts in the economy
  - Reaction to spread of coronavirus
  - Precipitous decline in stock market values since mid-February (Dow down 4600+ this week)
  - Weak bond yields
  - Federal Reserve reduced interest rates by an additional 50 bps on March 3 to 1.25
  - Presidential order travel ban
  - Closing of schools, social, sports and entertainment events due to fear of contagion
Proposal to Address Excessive PBGC Premiums

Summary of Premium Proposals

- Reduce variable rate premium cap
- Reduce flat rate for very well-funded plans
- Eliminate indexing of the variable rate premium
- Adjust premium rates based on the financial strength of the PBGC
- Premium increases and decreases would not be taken into account in determining budget effects of legislation
Correction of Budget Process: Pension and Budget Integrity Act

- Under current law, premiums paid to the PBGC cannot be used for any other government purpose.
- However, for budget scoring purposes premium increases are taken into account to pay for other federal expenditures.
- Single employer premium increases and decreases would not be taken into account for budget purposes.
American Benefits Council Activity

- Coalition of member companies
- Ongoing meetings with congressional staff on key committees
- Interest in stabilizing pension funding has been greater than addressing high premium costs
- Elimination of indexation of variable rate included in legislation introduced by Senators Portman and Cardin
- Multiemployer plan legislation or other possible vehicles