



AMERICAN BENEFITS
COUNCIL

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
 - Presidentially ordered 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