AMERICAN BENEFITS COUNCIL

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Groundbreaking Study of 703 Companies Reveals: Funding Rules will Divert Over $24 Billion from Economic Recovery in One Year

Failure to Enact Pension Stabilization Could Translate into Almost 500,000 Lost Jobs

The American Benefits Council has completed the first study of the effects of the current health and economic crises on the defined benefit plan system, which has profound effects on the economy and the ability of American businesses to recover and retain workers.

- **703 companies participated in this study.** The companies were primarily larger, but over 70 smaller companies were included.

- **On average, funding obligations are projected to increase over 98% from 2020 to 2021**.[1] At a time when companies are struggling to stay afloat, this is a shocking and unnecessary increase. There is no need for such a debilitating increase since today's abnormal conditions bear no relationship to the companies' ability to pay for pension obligations that may be as many as 50 years away.

- **Just among these 703 companies, this increase results in them owing over $9 billion more for 2021 than for 2020.**

[1] These numbers are based on conservative projections, generally assuming that asset values stay flat between the end of March and the end of the 2020 plan year. In most cases, company data was aggregated so that a weighted average increase was used, but, where possible, each company's increase was weighted the same regardless of the size of the plan. In addition, several plans had no contribution requirement for 2020, and a large one for 2021. To avoid skewing the percentage increase, these plans were disregarded even though they technically had the largest percentage increase (infinite).

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- **Why is this increase in funding obligations occurring?** This is a direct result of (1) the economic crisis and (2) the structure of the funding rules. In an economic downturn, the funding rules require plan asset losses to be made up very quickly, and these losses can be billions of dollars.

- **If the original U.S. House of Representatives version of the Coronavirus Aid, Relief, and Economic Security (CARES) Act were enacted, it would save these 703 companies over $12 billion for 2021**. What the House provision would do in the aggregate is undo the severely adverse effects of the current crisis by returning funding levels just slightly below 2020 levels. This is not relief, it is stabilization: preventing the crisis from unnecessarily costing jobs and jeopardizing businesses based solely on the volatile quirks of the funding rules.[2]

- **This study covers only 3% of all PBGC insured plans. Total savings from the House provision would likely be well over $24 billion in one year**. Based on the most recent PBGC data, there are over 23,000 PBGC-insured plans. Even if we exclude plans with under 1,000 participants, there are over 2,500 such plans, almost four times the size of our study. If the House funding provisions are enacted, at a minimum, is hard to imagine that the national savings for all plans in the country are not at least double the savings for our 703, ***bringing the total savings to over $24 billion in one year. If we use $50,000 as a proxy for an annual salary, this would translate into 480,000 jobs.***

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[2] The House version of the CARES Act would have allowed plans to use interest rates closer to historic norms, rather than the current low interest rates which overstate pension liabilities and have little relevance to the ability of plans to meet obligations over the next 40 years or so. The House version of the CARES Act also would have allowed plan sponsors 15 years to fund the plan asset losses triggered by the current crisis, rather than seven years, which is simply too short for losses of this magnitude, especially for companies straining to retain jobs.