

Pension Funding Relief is Extended

Background

Several years ago, the Pension Protection Act (PPA) completely revised the funding requirements for private sector defined benefit pension plans – primarily through the use of relatively lower 2 year averaging of historical interest rates for actuarial valuations, which relatively increased actuarial liabilities and plan costs.

A few years ago, the Moving Ahead for Progress in the 21st Century (MAP-21) recognized the significant funding issues created by PPA and provided temporary funding relief through a scheduled use of 25 year average historical rates. The relaxation of the PPA rates allows use of higher interest rates which reduces actuarial liabilities and funding requirements – on a temporary basis, primarily scheduled to phase out over about a 5 year period.

On Friday, August 8, the President signed the Highway and Transportation Funding Act of 2014 (HATFA), extending the pension funding relief contained in the Moving Ahead for Progress in the 21st Century Act (MAP-21).

The law change essentially provides for lower pension plan funding, which lowers tax deductions, which translates into higher taxable income and increased taxes – which provides “funding” for the transportation portion of the law.

Pertinent Law Changes

The HATFA extension of the MAP-21 provisions extends the corridor around the 25-year average historical interest rates. The table below compares the corridor constraints of the original MAP-21 and the provisions of HATFA:

	Corridor Range of Allowable Interest Rates as a Percentage of the 25-year Average	
<i>Plan Year Beginning:</i>	<i>MAP-21</i>	<i>HATFA</i>
2012	10%	10%
2013	15%	10%
2014	20%	10%
2015	25%	10%
2016	30%	10%
2017	30%	10%
2018	30%	15%
2019	30%	20%
2020	30%	25%
2021+	30%	30%

Therefore, the phase out level scheduled for 2016 is now extended another 5 years to 2021.

The law change is required for plan years beginning in 2014. As noted in the chart above, the changes are also effective for plan years beginning in 2013 – on a voluntary basis, plans may opt out of this change for 2013 plan years.

Impact

Plan sponsors who want to minimize current contribution levels will want to analyze the impact of revising the 2013 actuarial valuation – which will also impact current 2014 quarterly contribution requirements and the 2014 actuarial valuations too.

Well funded plans, where current contribution levels are not a significant concern may not need to revise 2013 valuation results.

These changes will also impact adjusted funding target attainment percentages (AFTAP's) and funding standard credit balances.

We will be contacting you to discuss and review optional strategies concerning these significant pension funding issues.