

COVID-19's Impact on Pension Plans: What are the Top 6 Issues Impacting Your Plan?

Amidst the COVID-19 pandemic, the CARES Act was signed into law on March 27th to provide pension plans with relief measures (view recent [Market & Legal Update](#)).

This update focuses on provisions of the CARES Act related to funding contributions for defined benefit pension plans and the potential impact of market rates on requirements for 2021. On May 18, 2020, the U.S. House of Representatives passed the Emergency Pension Relief Act of 2020, which would provide additional relief on top of the CARES Act. More details below and to follow.

As we try to revert back to normalcy (or whatever the 'new normal' will look like), now can be a great time to review the trends impacting pension plans and react accordingly. There are still many unknowns and plenty of time left in 2020. Planning ahead can pay dividends to your plan and help to be prepared for 2021 and beyond.

CARES ACT OF 2020: Under the CARES Act, employers may defer contributions (including quarterly contributions) required and due in 2020 until January 1, 2021 (with interest). Note that the CARES Act only defers contributions but does not eliminate requirements. The old adage "pay now or pay later" continues to apply. The CARES Act also provides employers with the option to apply the plan's 2019 adjusted funding target attainment percentage (funded level applicable to benefit restrictions) to the 2020 plan year as well.

ASSET RETURNS: Decreases in interest rates have led to increases in the market value of fixed income investments. Unfortunately, equity markets have seen the largest decline since The Great Recession of 2008. There has been some bounce back lately, but most plans are experiencing large losses in 2020, which will impact 2020 year-end balance sheets, 2021 cash requirements and 2021 PBGC premiums in a negative way.

DISCOUNT RATES: High quality corporate bond yields have fallen about 45 to 50 basis points since December 31, 2019; recovering to some extent since the low point in March (down 80 points since year end). This will lead to increases in pension liabilities of 5% to 10%, depending on duration. Balance sheet liabilities and upcoming fiscal year pension expense will be adversely impacted.

DE-RISKING: Even though interest rates are lower than they have been in a while, many plan sponsors are still considering de-risking their pension plan. Some are willing to trade in the headache and uncertainty of future market volatility, even if it means settling liabilities at a premium. For calendar year plans, there is still enough time to implement an annuity purchase and/or a lump sum window for terminated vested participants by year-end to help reduce 2021 administrative costs and assets at risk.

2021 FUNDING & PBGC PREMIUMS: Decreases in interest rates and adverse asset performance during 2020 (all else being equal) will lead to increases in IRS funding requirements and PBGC Variable premiums in 2021. Long-term smoothing of interest rates will lead to IRS interest rates declining by around 40 basis points in 2021. Potential legislative and/or inflationary increases may be issued by the PBGC for 2021 as well. EPRA 2020 may change requirements for 2021 if signed into law.

EMERGENCY PENSION RELIEF ACT OF 2020 ("EPRA 2020"): On May 18, 2020, the House passed a \$3 trillion stimulus package in response to the COVID-19 pandemic, which includes significant relief to pension plans. Highlights of the relief include: (1) elimination of previous shortfall bases, (2) increase in the amortization period from 7 to 15 years for new bases, (3) extension of the interest rate corridor with a 5% floor on interest rates.

USI CONSULTING GROUP IS HERE TO HELP

Please contact your USICG Actuary to discuss these important topics.