Announcement – Significant Pension Law Change
Pension Plan Funding Relief Arrives!

On Friday, July 6, 2012, President Obama signed into law the ***Pension Funding Stabilization*** bill as part of the transportation reauthorization legislation.

The new law provides significant pension plan funding relief for plans subject to ERISA/PPA, effective for 2012 plan years. The relief comes in the form of revising the interest rate basis used in actuarial valuations (the most key assumption) to determine actuarial liabilities and minimum required contributions. Plan sponsors may elect to not use the new rates for 2012.

Interest Rate Change

The new interest rate basis moves from a 2 year average index for segmented rates to a 25 year average index, with a corridor limit, that will have significant impact in the short term (about 5 years). The corridor will gradually widen, reducing the impact in future years. The 25 year average basis will reduce required employer contributions significantly for several years and will reduce contribution volatility.

It is estimated that the single effective interest rate for the 2012 calendar plan year will move from about 5.4% to 6.7% under this law change. This could mean as much as a 20% reduction in actuarial liabilities used in determining funding ratios ("AFTAP") and minimum required contributions. Remember, as interest rates go up, the present value of future benefits, actuarial liabilities and costs go down. Also note that this may result in a change of timing in making contributions – ie., reduced contributions now may end up eventually increasing contributions in future years, depending on the economy rebounding and future interest rates.

Other Provisions

- ***Accounting***: Note that the above-noted interest rate change only impacts required funding – it does not affect accounting determinations under FASB rules.
- ***Plan Restrictions***: The interest rate change does impact funding ratios to determine any plan restrictions (like restricting lump sum payments) that may apply to the plan.
- ***PBGC Premiums***: Premium rates are increased and the new interest rates are not used to determine variable rate premiums – so, reducing contributions may result in increased PBGC premiums. The PBGC flat rate premium increases from $35 per participant to $42 in 2013 and $49 in 2014. The variable premium rate increases from .9% to 1.4% in 2013 and 1.9% in 2015. Both premium rates are indexed after 2015.
- ***Lump Sums***: The new interest rates do not impact any lump sum determinations under plan provisions.
- ***Maximum Contribution Limits***: The new interest rates do not impact maximum deductible contribution amounts.

Additional information may be required in the plan's Annual Funding Notice to plan participants for the next few years.

Obviously, the impact of this new law is significant. Let us know if you have any questions. We will be in touch with you concerning the impact on your plan.

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