MWM Consulting Group

Taking Measure of Tomorrow ™

UPDATE

Actuarial and Benefits News

2012 Pension Plan Funding Stabilization Enacted

On July 6th the ***Moving Ahead for Progress in the 21st Century Act (MAP-21)*** was enacted. This legislation, which primarily addresses student loan and transportation issues, also included important pension provisions. These provisions provide significant funding relief, at least for the next two years, by requiring the interest rates for minimum funding purposes to be within certain ranges of 25 year average corporate bond rates.

The new rules which are effective for plan years beginning on or after January 1, 2012, are referred to as "interest rate stabilization" provisions. In very general terms, since current interest rates are at historically low levels, the effect of imposing a corridor relationship to average rates over 25 prior years has the result of increasing the two year average segment funding interest rates used for valuations, and thereby decreasing the resulting target liabilities. The estimated impact upon contributions is that for 2012, the minimum funding requirements will be reduced by from 15% to 25% and in some cases more, over what they would otherwise have been.

Specifics

Current law permits sponsors to elect to value their pension liabilities using an interest rate which is developed from the current full yield curve of high quality corporate bond rates, or from a segmented yield curve based upon 24 month averages of those rates. The three segments relate to three areas of the corporate bond rates yield curve: the first five years, the next 15 years, and all years after 20 years. The MAP 21 provisions, apply to interest rates developed from the segmented yield curve basis only.

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MAP-21 Expected to Reduce Pension Contributions for 2012 by Around 20%
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The segmented yield curve is developed each month by averaging the individual monthly yield curve segments over 24 months. The MAP 21 provisions add a constraint which requires the segment used for any month in the average to be within a corridor of the 25 year average for that segment. The corridor for 2012 is 90% to 110%. This means that the individual month's segment rate must be at least 90% of the average and not more than 110% of the average. The law is written to phase out its impact as the collar corridor widens each year, such that by 2016 the constraint is 70% to 130% and unlikely to have any significant effect.

Plan Years Beginning in Calendar Year	25 Year Average Determined as of	Minimum Corridor	Maximum Corridor
2012	9/30/2011	90%	110%
2013	9/30/2012	85%	115%
2014	9/30/2013	80%	120%
2015	9/30/2014	75%	125%
2016 and later	9/30/2015	70%	130%

Impact for 2012

The current full yield curve for December 2011 for an active plan may render an effective rate of 4.6%. The 24 month segment rates for January 1 valuations are: 2.06% for the first five years, 5.25% for the next fifteen years and 6.32% for years after twenty. The equivalent effective rate for an average active plan would be around 5.40%. These rates reflect the current environment of abnormally low corporate bond interest rates.

There are no published segment rates prior to 2001, and therefore the "25 year" averages must be developed and published by Treasury before exact calculations can be determined. Based upon modeled estimates of the pre 2001 yield curve segments, actuaries have developed the 25 year averages and estimated that the effect of the MAP 21 adjustments for 2012 will increase the discount rate by 120 to 170 basis points, thereby decreasing minimum funding requirements for a typical plan by 15% to 25%.

Once the Treasury publishes the "25 year average" and the resulting adjusted segment rates, actuaries will be able to measure the effect upon 2012 contribution requirements.

Liabilities Will Need to Be Calculated Under Both The MAP-21 Stabilized Rates and Under The Pre MAP-21 Basis.

Other Aspects

There are several aspects of pension administration related to funded status which are not covered by the MAP 21 adjustments, and which require determinations under unadjusted values.

- 4010 Reporting to the PBGC – Plans that are less than 80% funded and have an unfunded liability greater than $15,000,000 must file a "4010" report with the PBGC. These values must be determined under the unadjusted (pre MAP-21) interest rate basis.
- Lump Sum benefits under Section 417 – Minimum lump sum benefits will be valued under unadjusted interest rate values
- PBGC variable rate premiums - Variable rate premiums will be based upon unadjusted rates.
- Plans that elected the "alternate method" which is based upon valuation liabilities must use unadjusted rates.
- Maximum deductible contribution amounts will be determined under unadjusted rates
- Transfer of assets under Section 420 – Excess assets will be determined under unadjusted rates. However MAP-21 extended the availability of Section 420 retiree health transfers and added the option of retiree group life insurance.

Benefit Restrictions Effects

Funding thresholds dictate the imposition of benefit restrictions under Code Section 436. The MAP 21 adjusted interest rates apply to funded status calculations (AFTAP Certifications) governing these rules. Since benefit restrictions, such as limitations on the payment of lump sums will have already been imposed upon plans for 2012, a change in the determination of funded status to an unrestricted threshold amount will complicate plan administration. Sponsors may elect to delay the use of stabilized rates for benefit restriction purposes, but must review the impact upon the following year presumed threshold as well as other aspects. The IRS is expected to provide guidance on these issues in the near future.

Increases in the PBGC Premiums

The MAP 21 provisions include an increase in the single employer per participant flat rate to $42 for 2013, $49 for 2014 and indexed thereafter. Additionally, the variable rate premium is increased from $9 per thousand of unfunded liability to $13 per thousand of unfunded liability for 2014, and to $18 per thousand of unfunded liability for 2015.

The multi-employer flat rate premium is increased to $12 for 2013 and will be adjusted each subsequent year.

Expanded Disclosures

For some plans, the Annual Funding Notice must include additional information disclosing the effect of the stabilized rates on minimum funding thresholds and contribution requirements for plan year beginning in 2012, 2013 and 2014. These additional disclosures are required if the plan covered more than 50 participants, and the "stabilized' liability is less than 95% of the un-stabilized liability, and the funding shortfall without stabilization is more than $500,000.

Treasury and IRS Guidance Expected

As guidance is published, we will keep you informed through continued updates.

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