United
Retirement Plan
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PENSION SMOOTHING EXTENSION

The Highway and Transportation Funding Act of 2014 (HATFA) was signed by the President in August 2014 and is now law. As a revenue raiser to offset the cost of the transportation funding, the law changes the interest rates that are required to be used when calculating Minimum Required Contributions to defined benefit plans. This will reduce the Minimum Required Contribution for many plans. There will be no impact on the calculation of the maximum deductible contribution amounts. The good news is that the legislation did not include additional PBGC premium increases, which had been considered.

Background

In 2012, as part of the Moving Ahead for Progress in the 21st Century Act (MAP-21), smoothing of pension funding interest rates was first introduced. This legislation also included increases in PBGC insurance premiums. Under MAP-21, the interest rates used to determine Minimum Required Contributions to pension plans are based on a corridor around the 25-year average of the rates that would otherwise be required. Since past rates were higher than current rates, the use of the average results in the use of higher rates, and thus lower required funding. Since some employers will opt to fund their plans at the lower level, they will have lower tax deductions, resulting in more revenue to the Treasury in the short term.

Under MAP-21, the corridor around the 25-year average rates was gradually expanded beginning in 2013 through 2016. The expanding corridor decreased the impact of the average, resulting in lower rates used to determine Minimum Required Contributions, and higher minimum funding amounts. HATFA delays the expansion of the corridor by five years to begin in 2018 and continue to 2021.

Impact

As described above, the revised rates will be higher, at least in the short term, than those that would otherwise be required for certain purposes. This will impact pension plans as follows:

- Minimum Required Contributions will be lower
- The Adjusted Funding Target Attainment Percentage (AFTAP) will increase. This may eliminate the need to impose benefit restrictions for some plans. For most plans, however, the use of the new rates will not result in a material change in the AFTAP or eliminate any restrictions.
- The determination of maximum deductible contribution amounts will not change.
- The determination of our recommended actuarially sound funding level will not change.
- Some plans may need to disclose the impact of the use of the higher rates to plan participants as a part of the Annual Funding Notice.
- The ultimate, long-term cost of the plan will not change, only the timing of contributions for employers who choose to fund their plans with minimum required amounts.

Under the legislation, these changes are optional for plan years beginning in 2013, and required for plan years beginning in 2014 and later years.

How We Will Proceed

Plan years beginning in 2013: The changes are optional for 2013. In many cases, our work for the year was completed before the law was passed and IRS guidance issued. The IRS guidance allows in most situations for the completion of the actuarial Schedule SB of the 5500 form to serve as the election of the rates to be used and we will follow that procedure. In those few situations where a specific election is required to elect which rates to use, or if the client requires a revised valuation to produce a lower contribution amount, we have or will provide what is needed.

For plan years beginning in 2014: The change to the revised rates is required for this year. If we have already provided you with a 2014 contribution range using the interest rates in effect before HATFA, we are required to recalculate it and give you the revised minimum required contribution amount. If the 2014 work has not been completed, we will complete the work utilizing the new rates. This will minimize any additional expense to you.

Please feel free to contact your retirement plan analyst if you have any questions regarding the new funding rules or our approach to the completion of your plan actuarial work.