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Alert: Congress Passes $1.9 Trillion Stimulus Through Budget Reconciliation

On Thursday March 11, the President signed the American Rescue Plan Act of 2021, a $1.9 trillion stimulus package that included several provisions that impact the funding of single-employer defined benefit plans. Plan sponsors may see significantly reduced minimum required contributions, may be able to retroactively avoid benefit restrictions and may be able to increase prefunding balances. It is important to note that the new law does not impact PBGC premium calculations in any way. As a result, if contributions are reduced, the variable premium may increase depending on facts and circumstances.

The highlights of the single employer plan changes:

- Prior law required a 7-year amortization of any unfunded liability from year to year. The new law increases the amortization period from 7 years to 15 years and requires a "fresh start" meaning all prior year amortizations are reduced to zero. Note that this change is effective beginning with the 2022 plan year with the option to elect for 2019, 2020 or 2021. **Impact:** For many plan sponsors, this will reduce the minimum required contribution and reduce the future volatility of contributions.
- Prior law provides for a certain level of interest rate smoothing in relation to the 25-year average corporate bond rates. The new law resets the interest rate smoothing and significantly extends the interest rate smoothing. See below:

PLAN YEAR	CURRENT LAW INTEREST RATE CORRIDOR	PROPOSAL
2020	90%-110%	95%-105% *(if not deferred)*
2021	85%-115%	95%-105% *(if not deferred)*
2022	80%-120%	95%-105%
2023	75%-125%	95%-105%
2024	70%-130%	95%-105%
2025	70%-130%	95%-105%
2026	70%-130%	90%-110%
2027	70%-130%	85%-115%
2028	70%-130%	80%-120%
2029	70%-130%	75%-125%
After 2029	70%-130%	70%-130%

In addition, the 25-year average rates would have a floor of 5% (before the corridor). This change would be effective beginning with the 2020 plan year with an option to defer to 2022. **Impact:** This change will reduce the minimum required contributions in the near term. It will also help to smooth future contributions.

Keep in mind that we are waiting for specific guidance from the IRS on how to actually implement these changes including revised valuations, amended Form 5500 filings (and maybe PBGC premium filings), prefunding balance elections, etc.

However, plan sponsors will need to consider options regarding when to implement these changes. Your H&H consultant is available to discuss these changes with you, and help you better understand how they may impact your plan and company's objectives.

If you have any questions or would like more information, please contact your H&H consultant or:

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