Single-Employer Defined Benefit Plan Funding Issues

By

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Overview

- PPA Overhaul of DB Funding Rules
- Pension Funding Relief
- “Wall of Contributions” Concerns
- Funding Rules: In Brief
- Benefit Restriction Rules: In Brief
- Addressing Unaffordable Contributions
- Consequences of Underfunding or Missed Contributions
PPA Overhaul of DB Funding Rules

- Amortization periods
  - Concern: amortization periods too long (up to 30 years)
  - PPA fix: 7-year amortization

- Actuarial assumptions and methods
  - Concern: too much selection flexibility
  - PPA fix:
    - Single method required (unit credit)
    - Further restricted interest & mortality assumption choices

- Smoothing of year-to-year fluctuations
  - Concern: too much smoothing (assets, interest rates)
  - PPA fix: more limited smoothing options

PPA Overhaul of DB Funding Rules (Cont.)

- Credit balances
  - Concerns:
    - Balances grow at assumed rate regardless of real returns
    - No restriction on using balances for contribution “holidays”
  - PPA fix:
    - Balances adjusted to reflect real returns
    - Restrictions on use, including 80% funded requirement

- Effect of benefit costs/payouts on funding levels
  - Concerns: underfunded plans get more underfunded based on (e.g.) amendments, accruals, lump sums, shutdown benefits
  - PPA fix: benefit restriction rules tied to funding levels