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ARP 2021 – More Relief and Guidance for Retirement Plans

After a brief pause, it looks like the breakneck pace of enacting and/or amending federal legislation and regulations in 2020 is back in full force. Although we are still awaiting updates on the Securing a Strong Retirement Act (SSRA) –details of which can be found here – there is now the American Rescue Plan (ARP) Act of 2021, which is the federal government's latest economic stimulus package and the first under President Biden.

The $1.9 trillion ARP includes:

- Extending expanded unemployment benefits with a $300 weekly supplement through the end of September; those benefits had been set to expire on March 31.
- $1,400 direct payments to qualifying persons (individuals with incomes of $75,000 or less and couples with incomes of $150,000 or less, plus $1,400 for children and adult dependents).
- $20 billion for a national COVID-19 vaccine program.
- $7.6 billion to hire 100,000 public health workers.
- Emergency paid leave for over 100 million American employees.
- Tax credits for families to offset up to $8,000 in annual child care costs.
- $15 billion in loans to small businesses, $25 billion in grants to bars and restaurants, and $25 billion for the Paycheck Protection Program.
- Retirement Plan Funding Relief

The original House Bill included an increase in the hourly minimum wage to $15, but the Senate parliamentarian found that the wage provision did not qualify for budget reconciliation and therefore could not be considered by the Senate. In addition, Senator Schumer presented an amendment to the House Bill to remove the cost of living freeze applicable to retirement plans in exchange for a cap on the deductibility of executive compensation over certain limits.

ARP includes the following items that will impact retirement plans:

Defined Benefit Single Employer Plan Funding Relief *

- Extended amortization for single employer defined benefit plans. In essence, all plan funding shortfalls are set to $0 and a fresh start amortization over 15 years is put in place. This would have a material positive impact for many defined benefit plan sponsors by lower funding requirements.

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- The legislation provides 15-year amortization of funding shortfalls (instead of the current 7 years)
- This will apply for plan years beginning after December 31, 2021 with options to adopt this feature sooner
- Extension of pension funding stabilization percentages for single employer plans by revising the specified percentage ranges used to determine whether a segment rate must be adjusted upward or downward. The specified percentage range for a plan year would be determined by reference to the calendar year in which the plan year begins. This will also have a material positive impact in terms of decreasing plan liabilities and easing minimum funding requirements for most defined benefit plans.
  - For single employer plans, the legislation provides interest rate stabilization.
  - The interest rate corridor will be 95-105% of smoothed interest rates for 2020-2025, gradually widening to 70-130%.
  - There will be a 5% floor on the 25-year average rates
  - An election can be made to for purposes of IRC Section 436, which limits benefit accruals and/or lump sum payments for certain underfunded plans.
- Special Rules for Community Newspaper Plans which expands the special funding rules enacted under the SECURE Act to certain community newspaper pension plans that did not qualify under the eligibility rules. In general, the legislation allows community newspapers to reduce the amount they contribute to their pension plans by choosing a higher interest rate of 8%, and allow plans to fund their shortfall over a period of 30 years.

Defined Benefit Multiemployer Plan Funding Relief **

- Adjustments to funding standard account rules for multiemployer plans.
- Temporary delay of designation of multiemployer plans as in endangered, critical, or critical and declining status.
- Temporary extension of the funding improvement and rehabilitation periods for multiemployer pension plans in critical and endangered status for 2020 or 2021
- Special financial assistance program for financially troubled multiemployer plans

The final version of the law has no impact on Defined Contribution plans and did not provide for an extension of CARES ACT voluntary features such as 401(k) plan COVID-19 loans or distributions from 401(k) plans. The House Bill originally contained a freeze in the annual cost-of-living adjustments for retirement plan salary limits and for overall contributions to defined contribution plans, as well as the maximum annual benefit under a defined benefit plan. The good news for retirement plan participants is that these provisions were eliminated from the House Bill in the final version signed into law.

The most significant ARP provisions include the extended amortization period and the interest rate stabilization. Both of these provisions will ease funding requirements for most single employer plans which includes the Pentegra Defined Benefit Plan for Financial Institutions.

Will ARP meet all of its intended goals? It is of course too soon to say. But as the nation—and the world—go about putting COVID-19 in the rearview mirror, this looks like the right kind of strategy to help us all get back on our feet.

* This includes multiple employer defined benefit plans like the Pentegra Defined Benefit Plan for Financial Institutions

** This does not include defined benefit multiple employer plans like the Pentegra Defined Benefit Plan for Financial Institutions

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