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Markets

Pension Funding Breaks Could Ease Corporate Cash Crunch

by Katherine Chiglinsky and Brandon Kochkodin
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- Extending relief would give companies more flexibility
- Mercer argues moves could help current employees, retirees

Politicians have another lever they can pull to help companies struggling to find money as the coronavirus pandemic roils markets: They could ease the rules for funding pensions.

Tweaking some pension mandates would give businesses more flexibility and free up cash as they deal with the virus's ripple effects, according to retirement consultant Mercer LLC. The suggestions from the firm, a unit of Marsh & McLennan Cos., would lower contribution requirements by cutting U.S. corporate pension obligations by about $90 billion.

Current rules require corporations to put an allotted amount of money into their pension plans every year. But since most plans are funded well enough to pay retirees for at least several years without added cash, delaying required contributions would allow corporations to use those funds in other areas of their business during the Covid-19 crisis, Mercer Chief Executive Officer Martine Ferland said in a letter to members of Congress.

"Those rules will still require many employers to make contributions to their pension plans at a time when cash is critically needed elsewhere," Ferland wrote in the letter. "We therefore support a number of changes to let sponsors more effectively deploy cash to weather the immediate crisis, while still making provision for the longer-term funding of pension promises."

Companies such as Boeing Co. and General Motors Co. have been drawing down loans and credit lines as they deal with disruptions caused by the pandemic. Shutdowns across the U.S. have sent shockwaves through the business community, with employers including General Electric Co.'s aviation division cutting jobs. Potential economic-stimulus bills being debated in Congress could include measures to provide relief from pension obligations, though the version passed by the Senate late Wednesday only defers contributions during 2020.

'Stay Afloat'

"There comes a point in time in these crises where getting relief on pension funding just helps companies stay afloat, save the most jobs possible," Ferland said in an interview.

Delaying payments into the plans, however, could mean some pensions won't get more funds right away to back their promises to retirees. David Certner, legislative policy director for government affairs at AARP, said that while it's crucial that the money eventually be deposited into plans, it's more important during crisis situations that employers stay alive.

"At the end of the day, plan funding is strong when the company is strong as well, so we want to make sure that we're able to keep these companies strong and keep the plans strong and be able to make good on these pension promises," Certner said.

Businesses were already gearing up for the possible rollback, starting next year, of a quirk in pension legislation that often gives the plans more wiggle room with contribution requirements. The tweak is likely to affect various companies differently, but could require some to set aside even more money for their pension plans -- unless the relief gets extended again.

'Be Prepared'

"It has started to perk up for some of our clients where they're starting to

get some cards and letters from their actuaries, 'Hey, be prepared for this, because you may start to see some notable contribution requirements over the next couple of years,'" Mike Moran, a senior pension strategist at Goldman Sachs Group Inc.'s asset manager, said in a phone interview earlier this year. Pension-funding relief has since become a more urgent issue for some plan sponsors, he said this week.

After the 2008 financial crisis, corporate pensions benefited from legislation that often allowed them to use a higher interest rate when calculating their liabilities for the purpose of determining minimum contribution amounts -- meaning companies needed to set aside less money now to make payouts later. The legislation, first tucked in a bill called MAP-21, came at a time when pensions were starting to be squeezed by low interest rates.

"Companies are making contingency plans," Lynn Dudley, senior vice president of global retirement and compensation policy at the American Benefits Council, an employer advocacy group, said earlier this year. The impact of the rollback varies for different companies, she said.

Rolling Back

Pension funding relief was extended repeatedly through legislation, but is set to start rolling back slowly next year. Moran, of Goldman Sachs, said in a note in January that contribution requirements could rise several-fold after 2020. Mercer, in its letter to the Senate Finance Committee and the House Ways and Means Committee, urged lawmakers to delay the beginning of the phase-out of those interest rate stabilization provisions until 2026.

"If additional pension relief doesn't pass, we expect the majority of plan sponsors will see increased contributions for the 2021 plan year," Mike Clark, senior actuary at Principal Financial Group Inc., said in an emailed statement earlier in March.

The past decade has been tough for pensions. The financial crisis wreaked havoc on financial markets, and the ensuing years of low interest rates have put pressure on the plans' ability to generate returns high enough to cover expected liabilities. Even as the stock market recovered and hit a record in recent years, interest rates have continued to drop, hurting pensions.

Now the funds face the double whammy of volatile stock markets and interest rates that have dropped even lower. Mercer's proposal wouldn't change the amount that retirees would ultimately receive, but rather tweak the technical rules and requirements for funding the plans. Bruce Cadenhead, Mercer's global chief actuary, said the moves are beneficial to current employees, who depend on their companies to provide paychecks throughout a potential downturn, and to retirees.

Weighing Trade-Off

For retirees, "if the choice is squeeze the employer for extra money now because that's what the rules say, but potentially thereby endanger their long-term health and long-term ability to continue supporting the plan, or allow a temporary deferral of contributions with the hopes that that will allow the employer to be around and able to make the contributions in the future, you may weigh that trade-off and decide that your interests are aligned with those of the current employees and employer," Cadenhead said in an interview.

Moran of Goldman Sachs said that it's a careful balancing act.

"On one hand, you would say it's better for participants to have more money in the plan," he said. "But on the other hand, we want to have strong sponsors behind them, and if the sponsor has what they believe to be a better use of that capital, that may be appropriate as well."