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RETIREMENT

Mercer: Pension Plan Funding Relief Needed ASAP

ELIZABETH BAUER, SENIOR CONTRIBUTOR

Last week, in a throwaway line in an article on multiemployer pensions, I considered it something of a given that, following a script similar to the 2008 crisis, Congress would provide "funding relief" to single-employer pension plan sponsors, allowing them to defer contributions to their pension plans which would otherwise be substantially elevated, and that it was multiemployer plans, with their pre-existing funding challenges, that faced greater difficulties.

Unfortunately, that isn't quite right. Single-employer plans are facing their own challenges that are far more significant than in 2008, and it's not a sure thing that they'll get this relief in time.

Last week Wednesday, the pension consulting firm Mercer sent letters to Chairman Richard Neal and Ranking Member Kevin Brady of the House Committee on Ways and Means, and Chairman Chuck Grassley and Ranking Member Ron Wyden of the Senate Finance Committee, calling their attention to the issues these pension plans' corporate sponsors would face without legislation. According to the letter,

"Under the current funding rules, implemented by the Pension Protection Act of 2006, most corporate plans are sufficiently funded to pay participants their benefits for at least several years without any additional cash infusions. But those rules will still require many employers to make contributions to their pension plans at a time when cash is critically needed elsewhere."

Mercer therefore called on Congress to implement the following changes quickly:

In addition, in the longer-term, and to a greater or lesser degree depending on whether or to what extent the market recovers before their next actuarial valuation comes due, companies will need more traditional forms of "funding relief." If this isn't enacted, their required contributions would balloon in order to pay off the pension underfunding due to the market crash as well as lower-than-low interest rates. Here Mercer calls for two technical boosts to the required valuation interest rates to lighten the burden.

Earlier today I spoke to Martine Ferland, Mercer's President and CEO, and Bruce Cadenhead, Mercer's Global Chief Actuary, to gain more insight into the situation. Given the fact that, as an actuary, I'd watched "funding relief" play out (from a certain distance) in 2008/9, I wanted to know how these situations compared in terms of urgency level, as well as to understand Mercer's perspective on the likelihood of quick legislation.

As Cadenhead explained, there are several key ways, beyond simply the magnitude of the crisis, in which the situation now is different than in 2008. In the first place, the particulars of pension plans' funding situation at the time of the 2008 market crash meant that they were not subject to the required quarterly contributions, as is now the case. In addition, the market crash and the attendant issues have produced a liquidity crunch more than was the case in 2008. As Ferland said, "We all understand that it's important to fund plans, but it's a question of balance."

Legislatively, Cadenhead believed that Congress, in general, does understand the importance of these issues as one piece of its larger actions, and, as well, a willingness to provide both short-term deadline relief and longer-term funding relief. However, he expressed concern that any relief might be paired with relief for multiemployer plans. This is a problem because their rescue and reform is a far more difficult issue (which I've been harping on regularly, including, yes, again, last week) because multiemployer plans have to resolve both existing deficits and changes in funding requirements going forward. There are too many sticking points that haven't been resolved; this can't just be tossed into a bill for quick passage.

What will the outcome be? As Ferland said, they are doing their best to raise awareness of the need, and "all we can do is keep at it."

Now, all that being said, this is the perspective of a pension consulting firm, looking out for their clients, the plan sponsors. Are they putting the plan participants, the retirees and the workers counting on those pensions, at risk with underfunded pensions?

Here are some numbers: Mercer's estimate of the pension funded status of the S&P 1500 companies (on an accounting basis) as of year-end 2019, was 88%. As of February 2020, they dropped this estimate down to 79%. What will their estimates look like after reflecting the further discount rate drops and assets losses of March?

At the same time, the most recent funded status reported in IRS reporting, for plan year 2018, calculated as of the start of the plan year, was 100%. This is higher than the accounting calculation at the same date would have been because of different discount rates and different calculation methodology, but it's not high enough to protect pensions from the market crash we've now had, or further yet unknown market losses.

How many companies are at risk of bankruptcy, or of shrinking so dramatically that they simply can't make the contributions needed to make these plans whole, even after the pandemic, and the economic crisis, have receded? As with so many questions today, we simply don't know.