

# Funding Considerations after the American Rescue Plan Act of 2021

While the American Rescue Plan Act (ARPA) provides funding relief for single employer plans, plan sponsors will want to study the impact of changing funding policy to understand the broader implications of their decision.

## Pension Accounting

ARPA does not change P&L pension expense and US GAAP reporting. Employers that choose to reduce future company contributions will generally increase pension expense since contributions increase the expected return on plan assets.

## Tax Deductions

Plan sponsors that reduce contributions will not get the same tax deductions as pension contributions are tax deductible. If tax policies change and result in higher US corporate tax rates, some employers may want to begin making larger contributions to capitalize on the added tax deductions.

## PBGC Premiums

ARPA does not change discount rates used to calculate PBGC variable rate premiums. If a plan sponsor elects to make lower contributions as permitted by ARPA, they will generally be required to pay larger PBGC premiums. Employers will want to balance higher PBGC premium costs against lower plan contributions.

## Lump Sum Windows

Lump sum windows allow plan sponsors to transfer pension risk off their balance sheet and reduce the plan's participant count, saving PBGC premiums. To pay lump sums without any benefit restrictions, a plan needs to be 80% funded. ARPA makes it easier for plans to be funded at the 80% level.

## Benefit Restrictions

Certain funded status thresholds have importance under pension funding rules. For example, a plan with an 80% funded status is able pay lump sums without restrictions. ARPA allows plans to get over these funded status thresholds more easily.

## De-Risking Strategies

ARPA does not affect the cost of annuity purchases or plan terminations, however, the improvement in ERISA funded status may cause some to reevaluate their pension risk strategies. Certain plan sponsors may look to adopt a plan hibernation strategy over annuity purchases and plan termination.

\* Sources: Milliman article, "Defined benefit pension funding resurrection"  
Mercer article, "ARPA, Implications for investment strategies and funding policies"

