

June 2020

Impact of the Proposed HEROES Act on Single Employer Pension Plans

On May 15, 2020, the House approved the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act. Although the bill is unlikely to advance in the Senate as written, there are two significant funding relief items that would benefit single employer pension plans that may work themselves into a future bill.

Extended Amortization of Funding Shortfalls

Under current law, funding shortfalls are amortized over a seven-year period. Under the proposed legislation, effective for plan years beginning in 2020:

- Plans will be provided with a “fresh start” - shortfall amortization bases and installments applicable to plan years prior to 2020 will be reduced to zero.
- New funding shortfalls will be amortized over a fifteen-year period.

Note that unlike the temporary extended amortization period options provided in the Pension Relief Act of 2010 (PRA 2010), the proposed fifteen-year amortization period would be a permanent change to the funding rules.

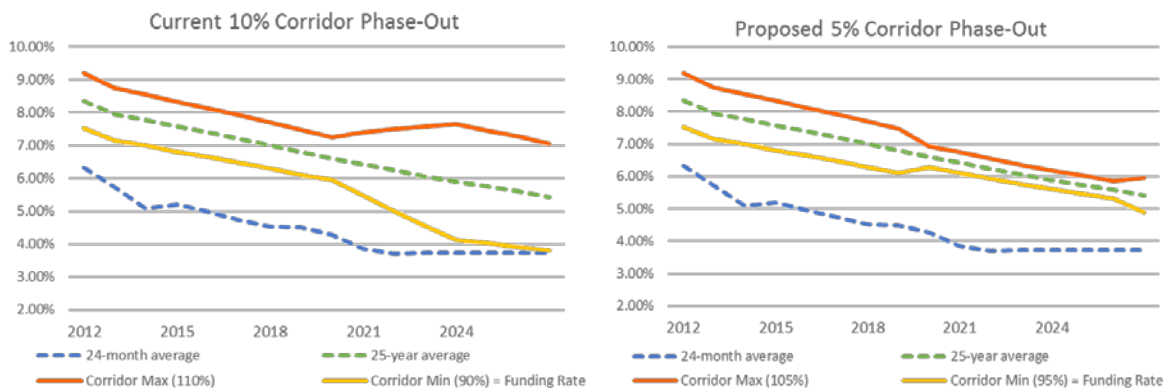
Extension of Pension Funding Stabilization Percentages

The most recent interest rate smoothing legislation passed (Bipartisan Budget Act of 2015) maintained the corridor around the twenty-five-year average of the three segment rates beginning at 10% through the 2020 plan year with a gradual 5% expansion to 30% for plan years beginning in 2024 and later.

Under the proposed legislation:

- The 10% interest rate corridor would be reduced to 5% for plan years 2020 through 2025.
- The gradual 5% expansion to 30% would be delayed until the 2026 plan year with the maximum 30% reached in the 2030 plan year.
- A permanent 5% interest rate floor would be established for the twenty-five-year average of the three segment rates.

The effect of the modified phase-out of the interest rate corridor can be seen in the graphs below with the yellow line effectively being the interest rates that would be used for funding:



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We will provide more information about the status of the HEROES Act as it is reviewed in the Senate. In the meantime, if you have any questions or need any assistance, please contact Jim Ritchie at (443) 573-3924 and jritchie@boltonusa.com.