

# Evaluating ARPA's Impact, 1 Year Later

The law made it easier for some plans to continue operating by adding flexibility.

Reported by [ED MCCARTHY](#) | Art by CAROL ROLLO

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THE [AMERICAN RESCUE PLAN ACT](#) OF 2021 created funding relief for single-employer defined benefit pension funds by extending the amortization period for shortfalls and stabilizing the interest rates used to calculate their funded level.

## Important Legislation

Impressions of ARPA's impact since passage vary widely among sources contacted for this article. Some maintain that it provided a vital lifeline for sponsors. One such supporter is Harold Ashner, a partner with the Wagner Law Group in Washington, D.C., and the Pension Benefit Guaranty Corporation's former assistant general counsel for legislation and regulations. "The funding relief was a lifesaver for employers facing unaffordable contributions that threatened the viability of the business, with a significant risk of a loss for PBGC," he says. "Many of those employers will now be able to maintain their pension plans long-term."

By providing greater flexibility for the timing of minimum contributions and reducing the contributions' volatility, the funding relief has reduced the pressure to close DB plans, Ashner says. "With the ability to apply the funding relief back to the 2019 plan year, there were many employers who found out that the minimum contributions they already made suddenly became excess contributions that could be used to offset significant current and upcoming contribution obligations," he says.

Ashner also cites a benefit to the PBGC's finances. While plans that ultimately fail despite the funding relief could present greater losses for the PBGC, he says, the PBGC will receive more variable-rate premium revenue to compensate for the increased exposure. Additionally, some plans that otherwise would have created losses for the PBGC will instead survive because of the funding relief, he says, citing the agency's September 2021 projection that the relief's net effect will be a \$1.4 billion improvement in the PBGC's financial position.

Nathan Hoellman, consultant and actuary with Cowden Associates in Pittsburgh, agrees that ARPA made it easier for some plans to continue operating. "For our cash-conscious sponsors, the ARPA legislation has been hugely helpful, often reducing contribution requirements to zero," says Hoellman. Overall, ARPA's impact on single-employer plans has been a "net positive," he says, because it adds operational flexibility, but its effect will vary with the plan's goals. For plans looking to terminate in the near term, the interest-rate relief could incentivize plans to delay that decision, which could have positive or negative effects, depending on market factors such as interest rates and market returns, Hoellman says.

At the same time, as funding rates and market interest rates near each other, settling liabilities results in a smaller loss with regard to funding, Hoellman explains. With higher funding interest rates, there is less incentive to settle liabilities via annuity purchases, lump sum windows or plan termination. Also, the lower required contributions that result from the amortization changes under ARPA make it easier for a plan to continue operating. "If terminating the plan is the ultimate goal, it may be delayed but not removed," says Hoellman.

## Limited Value

Brian Donohue, a Chicago-based partner with October Three, says that for a minority of plans, perhaps 10%, funding relief is meaningful and translates directly to them putting less money in their plans. The reason it's a very small percentage is that most employers don't base their funding decisions solely on the minimum required amount, says Donohue: "For most of those employers, what funding relief means is the rules are just less likely to impinge on what you're trying to accomplish, which is nice—you have more room to pursue your strategy."

For instance, a plan might be settling its liabilities through lump-sum payouts or pension risk transfer strategies. Plans need to have a funding level above 80% to implement those strategies, says Donohue, and ARPA makes it easier for them to maintain that 80% funded status so they can engage in settlement activity.

Donohue cites October Three's research that found that 72% of plans with at least \$400 million in assets were fully funded using the PBGC's standards, which are more stringent than ARPA's. PBGC's premiums are based on funded status, and underfunding a plan and incurring the resulting higher premiums is "an expensive way for companies to borrow," he cautions. "If companies have access to cash or credit at reasonable rates, it probably makes sense for them to go borrow that money and fund their pension shortfalls. So, what you're left with is companies that don't have any good options for cash or credit, and this is why they don't fund their pension plans. That describes much of the 10% of plans that are at the minimum funding levels."

Royce Kosoff, managing director with WTW's retirement practice in Philadelphia, says [ARPA is just one of many considerations](#) for plan sponsors in managing their pensions. For most companies, the decisions on freezing plans were made well in advance of the legislation, with only 12% of Fortune 500 companies currently offering pension benefits to new salaried hires. The decision to maintain a plan in some form must consider multiple factors, he says, including the presence of legacy employee populations and the plan's funded status.

ARPA's provisions provided plan sponsors a high degree of flexibility, Kosoff explains. The new 15-year amortization rule applied for plan years beginning after December 31, 2021, but a sponsor could implement it for plan years beginning after December 31, 2018. The interest rate relief implementation's date was also flexible. It applied to plan years beginning after December 31, 2019 but a sponsor could decide to not apply the changes to any plan year that began before January 1, 2022. This flexibility helped reduce immediate pension contributions, which was especially valuable in light of historically low interest rates.

An analysis of companies in the WTW Pension 100 (the 100 largest sponsors of U.S. DB plans that use a calendar year end) found that those companies made pension contributions totaling \$16 billion in 2021, while contributions from the same group of companies was expected to be \$9.5 billion in 2022, based on information reported at the beginning of 2022.

For sponsors that had made earlier discretionary contributions and were in a better-funded position, ARPA's primary benefit is the enhanced financial management and funding flexibility it has provided, especially during this year's market downturn, says Kosoff. While it is difficult to separate the impacts from the interest rate stabilization and amortization changes, he says, both changes give sponsors more room to maneuver.

"What we saw when the law got passed was plan sponsors reevaluating," says Michael Clark, managing director with Agilis in Denver. "Do we need to restate anything? What are the implications for us? Will there be additional service provider costs?" Among plans with high funding levels, there was no need for them to do anything other than wait for the rules to become effective and then apply them, he says.

"But on the flip side, you had others that went back retroactively to 2020 and implemented the amortization change and the interest rate stabilization change to benefit from lower contributions in 2021, primarily," says Clark. "I think what you saw last year was that most plan sponsors evaluated when the optimal time was for them to adopt these new provisions. They made those changes in 2021 and haven't looked back."

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Reported by [Ed McCarthy](#).

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