

# JUST THE FACTS

A Newsletter Prepared By First Actuarial Consulting, Inc.

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## Relief for Single-Employer Pension Plans under the American Rescue Plan Act of 2021 (“Act”)

### “Fresh Start” and Extended Amortization Funding Shortfalls

The Act provides a “fresh start” on the amortization of a single-employer plan’s underfunding. For the plan year beginning in 2022 (or, if elected by the plan sponsor, a plan year beginning in 2019, 2020, or 2021), all of the plan’s shortfall amortization bases for plan years preceding the applicable plan year will be wiped out. Beginning in the applicable plan year, the plan’s new shortfall amortization base (and all future shortfalls) will be amortized over fifteen years, instead of seven years. This relief will reduce the annual minimum required contributions for single-employer plans.

**FACT Insight** – Plans taking advantage of the reduced minimum required contribution should examine the impact on their PBGC premiums.

### Extended and Enhanced Interest Rate Stabilization

The interest rate stabilization that is currently in effect was scheduled to begin phasing out in 2021 but the Act modifies this. The table below shows the corridor percentage before and after the Act provisions.

| Year | BBA    | Act    |
|------|--------|--------|
| 2019 | 10.00% | 10.00% |
| 2020 | 10.00% | 5.00%  |
| 2021 | 15.00% | 5.00%  |
| 2022 | 20.00% | 5.00%  |
| 2023 | 25.00% | 5.00%  |
| 2024 | 30.00% | 5.00%  |
| 2025 | 30.00% | 5.00%  |
| 2026 | 30.00% | 10.00% |
| 2027 | 30.00% | 15.00% |
| 2028 | 30.00% | 20.00% |
| 2029 | 30.00% | 25.00% |
| 2030 | 30.00% | 30.00% |

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The Act also sets an interest rate floor of 5.00% on the 25-year average segment rates. So, if the 25-year average segment rate is 4.00% then the rate is set to the floor of 5.00%. Finally, the corridor percentage is applied (assuming we are in the year 2022 where a 5% corridor is used) resulting in an interest rate range of 4.75% to 5.25%.

The interest rate stabilization changes are effective for plan years beginning in 2020. However, a plan sponsor may elect to delay the application of the changes to any plan year beginning before January 1, 2022.

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