

News

# Kreps Talks Rising Interest Rate Impacts on Pension Plans with Institutional Investor

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*Institutional Investor* quoted Groom principal and chair of the firm's retirement services practice, [Michael Kreps](#), on the effect rising interest rates are having on pension funds in their article, "Corporate Pension Funds Lobbied for a Rule Change. Now It's Coming Back to Haunt Them."

In 2012, the low interest rate environment created in the wake of the recession was a problem for pension plans. "When corporate bond rates started to plummet because of the recession, we were punishing plan sponsors at the exact time that they were having business trouble," said Kreps.

As discussed by Groom attorneys when it was passed, [MAP-21](#) provided relief by allowing plan sponsors to use artificially high discount rates and plans improved over time. However, now interest rates have risen and are actually higher than the artificial discount rates.

"Rather than those historic averages keeping interest rates up, the ceiling hits, and they're keeping interest rates down, meaning the pension contributions are inflated," Kreps said.

Kreps continued, "You could imagine the conversation you'd have to have as a CIO or CFO with the management team, saying 'Hey, team, our pension fund is pretty well funded, but because Congress proposed this arbitrary cap on interest rates, we have to make a contribution to the plan anyway.'"

*Institutional Investor* noted that, "According to [Kreps], Congress is generally amenable to supporting corporate pension plan needs, given the positive optics of backing both a robust employee benefit program such as a pension and a corporation."

"Kreps noted that Congress usually includes rules like this in a larger legislative package," *Institutional Investor* concluded, and that it may be some time before Congress is ready to take on an issue of this complexity.

To read the article, [click here](#).