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The New Single-Employer Defined Benefit Plan Funding Rules: What's In Store For Defined Benefit Plan Sponsors and Participants?

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The Pension Protection Act of 2006 (the Act) arguably marks the most sweeping changes to the pension laws since the enactment of the Employee Retirement Income Security Act of 1974 (ERISA). While the Act included many changes to the pension laws, the main driver behind these changes was the enactment of the new single-employer defined benefit plan funding rules. Some policymakers contend, however, that these new rules will invariably speed up the already impending demise of single-employer defined benefit plans. It is well-established that defined benefit plans in the single-employer-provided pension system are slowly disappearing. For example, the Pension Benefit Guaranty Corporation (PBGC) has reported that from 1986 to 2004, 101,000 single-employer defined benefit plans with about 7.5 million participants have been terminated. Other studies have shown that 44 percent of private sector employees were covered under a defined benefit plan in 1974, but that percentage has declined to only 17 percent today. Despite this shift away from defined benefit plans, it does not appear that the Act will cause single-employer defined benefit plan sponsors to totally abandon the defined benefit plan system. However, it does appear that the Act will accelerate the trend of freezing participation or benefit accruals under existing plans. The elimination of pension benefits payable under a single-employer defined benefit plan could reduce a worker's retirement income, even if such benefits are replaced with defined contribution-type benefits, thereby calling into question the retirement security of single-employer defined benefit plan participants and the American public as a whole.

This article will explain the newly enacted single-employer defined benefit plan funding rules under the Act, focusing exclusively on the minimum required contribution rules, the at-risk rules, the treatment and effect of credit balances, and the rules relating to restrictions on benefits, and it will highlight some of the reasons why the current defined benefit plan funding rules were changed. In addition, the article will briefly discuss the impact the new rules may have on the defined benefit plan system and the retirement security of defined benefit plan participants.

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