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BENEFITS BRIEF

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Extension of Pension Interest Rate Smoothing Relief Clears Congress Before August Recess

Background (and Legislative Ping-Pong)

On July 17, 2014, the House of Representative passed the Highway and Transportation Funding Act of 2014 (H.R. 5021), extending funding of highway and transportation projects through May 2015. As a means of raising revenue to provide funding for these projects, the bill includes a 5-year extension of the pension plan funding stabilization provisions originally passed as part of the previous transportation bill, the Moving Ahead for Progress in the 21st Century (MAP-21) Act of 2012. These pension funding stabilization provisions (often referred to as pension interest rate smoothing provisions) generally result in a significant reduction of an employer's minimum funding requirements.

The Senate passed its version of the highway financing bill on the evening of July 29, 2014 with the notable difference from the House bill being that the Senate removed provisions dealing with pension smoothing as a "gimmick." The Senate bill was sent back to the House for further consideration. On July 31, 2014, the House voted not to accept the Senate's version of the highway financing bill. Since transportation construction projects will stop in mid-August unless the legislation funding such projects is passed before the Senate adjourns, the Senate was placed in the position of accepting the House position regarding the pension interest rate smoothing provisions. Accordingly, later the same day, the Senate passed the House version of the Highway and Transportation Funding Act and adjourned for August recess. The White House had earlier indicated that it would sign the House version of the highway funding legislation, so the extension of pension interest rate smoothing relief will become law soon.

What the Legislation Does

The MAP-21 provision adjusts the relevant interest rates for determining an employer's defined benefit plan funding requirement for a given period to the extent that the rate for that period is not within a specified range of the average "segment" rates for the preceding 25-year period (ending September 30 of the calendar year before the calendar year in which the plan year begins). The MAP-21 provision stabilized interest rates for purposes of calculating defined benefit plan funding by adjusting the segment rates used to determine funding status within 10 percent of a 25-year average of prior segment rates. This 10 percent corridor is gradually phased out under the original MAP-21 legislation – the bill delays this phase out until 2017 under the following schedule, raising $6.4 billion by doing so:

If the calendar year is:	The applicable minimum percentage is:	The applicable maximum percentage is:
2012 - 2017	90%	110%
2018	85%	115%
2019	80%	120%
2020	75%	125%
After 2020	70%	130%

The revised smoothing rules would not apply for purposes of the benefit restrictions that apply to companies in bankruptcy (Code sec. 436(d)(2)), generally for 2015 and later years.

Effective Dates/Observations

These new smoothing rules generally apply to post-2012 plan years (when the phase out of MAP-21 began). A plan sponsor may elect not to apply them to any plan year beginning before January 1, 2014, for all purposes or solely for purposes of determining the plan's "AFTAP" under the benefit restrictions.

These effective dates provide plan sponsors with flexibility to reduce planned funding for 2013 (for which contributions generally may be made up to the tax filing deadline, September 15, 2014, for calendar year taxpayers), as well as 2014 and later years.