



# Update from ASC Actuaries

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## American Rescue Plan Act of 2021

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At an impressive 628 pages, the American Rescue Plan Act of 2021 (‘ARP 2021’) was signed into law on March 11, 2021 and is one the largest pieces of legislation in American history. Aimed at providing broad relief to Americans and American businesses suffering from the effects of the COVID-19 pandemic, there are 2 key provisions that affect single employer defined benefit plans.

### Extended Shortfall Amortization Period

The Pension Protection Act of 2006 (PPA) reformed the patchwork of amortization periods for different reasons (assumption changes, plan changes, etc.) under ERISA to be a single period of 7 years for a funding shortfall (as long as a base was required to be established and maintained). While ARP 2021 did not change the rules that govern if a shortfall amortization is required to be established, the law does prospectively change the amortization period from 7 years to 15 years. Unless elected sooner, the effective date of this new amortization period is for plan years beginning after December 31, 2021. In addition, all shortfall bases and installments that were established prior to the first plan year starting after December 31, 2021, will be reduced to zero, unless elected to started earlier.

Plan sponsors have the option of electing to change the amortization period to 15 and reducing prior bases and shortfall amortization installments to zero to as early as the plan year beginning after December 31, 2018, December 31, 2019, or December 31, 2020. The text of the law suggests that plan sponsors would only be permitted a one-time election to accelerate the timing of the new requirements.

### Extension of Pension Funding Stabilization Percentages for Funding Segment Rates

The Bipartisan Budget Act of 2015 (‘BBA 2015’) was the last legislation that changed the corridors used to determine the tiered segment rates used to calculate minimum funding requirements. Under BBA 2015, a 10% corridor was set to apply through 2020 and then phase up in 5% increments to reach 30% in 2024.

For plan years beginning after December 31, 2019, ARP 2021 introduced a floor for any given 25-year average used to calculate a first, second, or third segment rate.

ARP 2021 adopts the 5% corridor for calendar years starting in 2020 and ending in 2025. Beginning in 2026, the corridor will be 10% and the 5% annual increment phase in will resume. A comparison of the BBA 2015 and ARP 2021 corridors is shown below.

	BBA 2015		ARP 2021	
	Applicable Minimum Percentage	Applicable Maximum Percentage	Applicable Minimum Percentage	Applicable Maximum Percentage
2012-2019	90%	110%	90%	110%
2020	90%	110%	95%	105%
2021	85%	115%	95%	105%
2022	80%	120%	95%	105%
2023	75%	125%	95%	105%
2024	70%	130%	95%	105%
2025	70%	130%	95%	105%
2026	70%	130%	90%	110%
2027	70%	130%	85%	115%
2028	70%	130%	80%	120%
2029	70%	130%	75%	125%
After 2029	70%	130%	70%	130%

In general, the segment rates used for minimum funding purposes are developed based on a 25-year average before a corridor percentage is applied. For plan years starting after December 31, 2019, ARP 2021 now specifies that if the average of the first, second, or third segment rates for any 25-year period is less than 5%, then the average for that first, second, or third segment rate will be set to 5%. We anticipate the IRS will reflect these changes when they publish the minimum funding rates.

Plan sponsors have the option to elect not to apply the ARP 2021 amended corridor and 5% floor apply to plan years that start before January 1, 2022 for either minimum funding purposes, or just for purposes of determining the AFTAP.

## The Law, Guidance and ASC Programming

The above summary was prepared based solely on the text of the law. As of the date of publication, no guidance has been issued, but as guidance becomes available ASC will assess the impact on programming.

Although there is no guidance at this time, rest assured ASC has started the review for making programming and reporting updates to the valuation system to accommodate ARP 2021. Existing system features will remain in place for plan sponsors that do not take advantage of the early election features in the law.

- The changes to the amortization period will include options for plan sponsors who elect early application of the 15 year amortization period.
- The changes to the segment rates in the ASC valuation system will be accommodated through the typical system updates for newly released segment rates under the revised corridor schedule. We will continue to include rates as soon as practicable after publication by the IRS.

In addition, stay tuned for updates about plan document operational requirements.

## At ASC, you're Supported by 3 Credentialed Actuaries



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