

PENTEGRA TECH TIPS

The American Rescue Plan Act of 2021 (“ARPA”):

- Defined Benefit Plan Legislative Initiatives:
 - Defined benefit plan funding relief will apply to single employer defined benefit plans.
 - ARPA provides two funding relief provisions:
 - Interest rate stabilization
 - Shortfall amortization period extension
 - Defined benefit plans will be able to elect both relief provisions for the 2021 plan year. The “relief” does not in any way reduce the benefits for which a plan is liable but essentially gives employers a longer period of time to make necessary plan contributions.
 - Summary of the two funding relief provisions:
 - Interest rate stabilization provides a new 5% floor on 25-year averages of each segment rate applied before stabilization corridor. The stabilization corridor narrowed from 10% of 25-year averages to 5% of 25-year averages – this increases the “floor” interest rates from 90% to 95% of the 25-year average. This delays the full phase-out of the corridor (in 5% increments which begins in 2026 and increases to 30% by 2030).

- Shortfall amortization period extension – the current 7-year amortization period is permanently changed to 15-year amortization period.
- Recommendations for single employer DB plans will be specific to each plan's circumstances.
- Funding Cost Savings Impact (estimated)
 - Interest rate stabilization - for most DB plan sponsors, the normal cost and liabilities will decrease 5% to 9%, depending on the demographics of the employer.
 - Shortfall amortization period extension – the decrease in the plan funding cost due to interest rate stabilization may eliminate most, or all, of an existing funding shortfall. Assuming a shortfall still exists, the amortization payment should be reduced by about 50%.

Contact the Pentegra Solutions Center at solutions@pentegra.com or 855-549-6689 for expert guidance on how to make the most of the new rules.

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