

Pension Funding Relief

President Obama enacted legislation on Friday June 25, 2010 that provides temporary funding relief for qualified defined benefit pension plans. The pension relief was included in the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act (H.R. 3962).

The legislation is reported to free up \$129 billion in otherwise required employer contributions over the next seven years that can be used to preserve or create new jobs. Experts predict the legislation will save hundreds of thousands of jobs, while reducing the federal deficit by as much as \$2.1 billion over the next decade according to the bill's authors.

- **Shortfall Amortization Relief**

For any two plan years between 2008 and 2011, the measure provides two alternative funding mandates:

- 1) Amortize funding shortfalls in a level amount over 15 years or
- 2) A 9 year option to pay interest only on the funding shortfall for two plan years and amortizing the balance, in equal amounts, over the remaining seven years.

However, employers will need to consider the impact of special rules if they paid "excess" employee compensation or "extraordinary" dividends and redemptions.

- **Benefit Restriction Relief for Years Through 2011**

Determination of when to apply benefit restrictions in years beginning through 2011 can be based on the Plan's funded status prior to the financial crisis (e.g. for calendar year plans, the Plan's January 1, 2008 funded percentage)

- **Relaxation of Rules for Applying Credit Balances for Plans Maintained by Charities**

A Plan sponsor can elect to apply Credit Balances to satisfy minimum funding requirements even if the Plan was less than 80% funded in the prior year, provided the Plan was at least 80% funded for the plan year prior to the financial crisis. This exclusion applies to plans exclusively maintained by one or more organizations described in section 501(c)(3) of the Internal Revenue Code.

This legislation may provide funding relief for your plan. We are available to analyze this potential relief for you. If you have any questions or want to discuss the above in further detail, please do not hesitate to contact SHDR.

