



Giveth and Taketh

Congress' new MAP-21 legislation

THE Moving Ahead for Progress in the 21st Century Act (MAP-21) became law on July 6, with the primary goal of reauthorizing programs such as the Federal Highway Trust Fund and subsidies for student loans. It also includes significant pension changes to offset these expenditures. The two biggest are funding relief for defined benefit (DB) pension plans, discussed here, and Pension Benefit Guaranty Corporation (PBGC) premium increases, which will be addressed in my next column. Advisers who work with defined benefit plans would be wise to take notice of these to understand the consequences to their clients.

Pension Funding

Adjustment of Segment Rates. Prior to MAP-21, pension liabilities were determined using three different interest rates, or segment rates, derived from the short-, medium- and long-term portions of the corporate bond yield curve averaged over a 24-month period. MAP-21 adjusts these rates if they fall outside a range based on the average segment rates for the 25-year period ending September 30 of the preceding calendar year. The range for 2012 is 90% to 110% of this 25-year average, and, if a regular segment rate falls below the range, it will be replaced by the lowest point on the range. Correspondingly, if a regular segment rate exceeds the highest point in the range, it will be replaced by the high point in the range.

As illustrated below, the range broadens after 2012 until it reaches its maximum scope in 2016.

Plan Year Beginning	Minimum/Maximum Percentage
2012	90/110
2013	85/115
2014	80/120
2015	75/125
2016 and later	70/130

Collateral Consequences. MAP-21 increases a plan's adjusted funding target attainment percentage (AFTAP). This is important for restrictions on benefits that apply when the AFTAP is lower than 80%. The potential restrictions include benefit increases, certain benefit accruals and a plan's ability to pay lump sums. Under current low interest conditions, these limitations are less likely to apply

when MAP-21's adjusted segment interest rates are used in calculating the AFTAP.

It is important to note, however, that MAP-21 applies to only some plan interest rates calculations. Thus, no calculation adjustments will be made for lump sums or plan liabilities with respect to variable-rate PBGC premiums geared to the level of a plan's underfunding. As discussed below, MAP-21 increases the rate of the variable-rate premiums, and if it also reduces the level of a plan's funding, the increased PBGC rates will apply to a higher amount of unfunded benefits. This means that, for some sponsors, the actual premium increase will be even greater than that indicated by the rate increase alone.

Employer Elections. Before MAP-21, a plan sponsor could elect to determine minimum required contributions using the full yield curve, or spot rates. Once made, the election could be revoked only with Internal Revenue Service (IRS) consent. The funding relief of MAP-21 does not apply if a spot rate election is in effect, but MAP-21 allows a sponsor to revoke the election without consent in order to adopt the segment rates and qualify for relief.

For those plans using segment rates, the funding relief is effective for plan years beginning this year. However, a qualifying plan sponsor may elect to accept the funding relief for 2012 but not apply the adjusted segment rates in 2012, for the collateral purpose of determining the AFTAP that relates to funding-based restrictions on benefits.

Impact on Annual Funding Notice. MAP-21 requires plans to provide additional information in plan years beginning after December 31, 2011, and before January 1, 2015, if: 1) the plan's funding target under MAP-21 is less than 95% of the prior funding target; 2) the plan has a funding shortfall, determined without regard to MAP-21, greater than \$500,000; and 3) the plan had 50 or more participants on any day during the preceding plan year.

The additional information includes: a statement that MAP-21 changed interest rate calculations and that, as a result, the plan sponsor may contribute less money to the plan, plus a table for the applicable plan year and the two preceding years showing the funding target attainment percentage, funding shortfall and the minimum required contribution with and without the MAP-21 adjusted interest rates.

Marcia S. Wagner is an expert in a variety of employee benefits issues and executive compensation matters, including qualified and nonqualified retirement plans, and welfare benefit arrangements. A summa cum laude graduate of Cornell University and Harvard Law School, she has practiced for 24 years. Wagner is a frequent lecturer and has authored several books and numerous articles.