SoA weighs pension provisions in Senate bill

By Editor Test *Tue, Jun 19, 2012*

SOA researchers analyzed the bill, "MAP-21," from the perspective of three key principles of funding regulation: the transparency of plan funded status, the solvency of the system, and the stability and predictability of future contribution requirements.

The pension funding stabilization provisions in the recently-passed Senate transportation bill would defer cash contribution requirements for companies with defined benefit pension plans, but it would not address other concerns such as volatility over the long term, according to the Society of Actuaries.

In a new report, “Proposed Pension Funding Stabilization: How Does it Affect the Single-Employer Defined Benefit System?” the SoA examines the pension funding stabilization provisions of the Moving Ahead for Progress in the 21st Century Act (MAP-21) for its impact on the private, single-employer defined benefit system as a whole, as well as individual plan sponsors.

“The predictability of contribution requirements would show some improvement in the short term, but little improvement in the long-term because the provisions do not address non-interest rate sources of volatility,” said Joseph Silvestri, FSA, MAAA, retirement research actuary with the SOA and lead researcher of the report.

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“The pattern of interest rates set by the legislation would defer required pension funding into the future, providing plan sponsors with a brief period of flexibility in how they use the cash that current law would otherwise require them to contribute to their plans,” the SoA said in a release.

“While aggregate contribution requirements initially would be significantly less than under current law, they would be expected to increase each subsequent year until ultimately exceeding the amounts that would have been required under current law,” the release said.

The research indicates that the pension funding stabilization provisions would do little to improve fluctuations in contribution requirements relative to current law, due to the effects of other, non-interest rate related sources of volatility and an eventual expected wear-away of the provisions.

While the provisions would affect pension plan valuations, they would conceal the effects that market-related changes in interest rates would have on plan finances. The expected deferral of cash contributions would decrease the solvency of the system in the short-term, but would eventually return to the levels expected under current law as contributions increase.

Silvestri recommends plan sponsors contemplate the effects of future obligation increases to avoid undesired fluctuations in their contribution requirements and the risks associated with declining funded ratios.

“The analysis ultimately suggests that plan sponsors hoping to stabilize cash flows to their plans should account for the pattern set by the interest rate limit when planning their contributions, taking into account the decline in valuation interest rates that will certainly follow the 2012 increase,” he said.

The results in the SoA report were derived from a 500-scenario stochastic projection of the private sector U.S. single-employer DB system. The projections were developed using the Pension Insurance Modeling System (PIMS), which was originally created for the Pension Benefit Guaranty Corporation (PBGC).

Starting with data from publicly available regulatory filings, PIMS simulated the demographic and economic experience of 425 single-employer DB plans, representing more than half of the reported benefit obligations of plans insured by the PBGC, using parameters determined by the Society of Actuaries (SOA). It then performed actuarial valuations of each plan for each year of the projection period and calculated the obligations, asset values and required contributions for each plan in the sample. The results from the sample of 425 plans were then extrapolated to the single-employer universe of plans, where such results are mentioned in this report.

In conducting the projections, the model relied on data supplied by the PBGC as of October 2011, which consisted of selected data from publicly available Form 5500 filings made by DB plan sponsors. The selected data included information about plan demographics, benefit structures, asset values, liabilities and actuarial assumptions for 425 large pension plans. While we cannot verify the accuracy of all the information, the supplied information was reviewed for consistency and reasonability. The SOA modified a few data elements to update them for major events (such as large plan freezes) since October 2011.