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Impact of American Rescue Plan Act of 2021 on Corporate Sponsored Retirement and Executive Compensation Plans

On March 11, 2021, President Biden signed into law the next wave of COVID-19 relief, titled the American Rescue Plan Act of 2021 (ARPA). While ARPA's $1.9 trillion in financial stimulus has taken the spotlight, the law also includes several changes that will impact retirement plans, most notably defined benefit pension plans.

Funding Shortfall Amortization Extension

ARPA permanently extends the shortfall amortization period from seven to 15 years. Additionally, ARPA permits plans to reamortize any previous funding shortfalls over the new 15-year window, which allows plan sponsors to decrease their near-term plan contributions. These changes are effective for the 2022 plan year, but plans may elect to apply them retroactively for plan years beginning after 2018.

Valuing Plan Assets – Interest Rate Stabilization

ARPA reinstates the interest rate stabilization program to minimize the impact of fluctuations in corporate bond interest rates. Accordingly, the interest rate corridor is reduced to 5 percent for the 2020-2024 plan years (*i.e.*, within 95-105 percent of the 25-year rate). Beginning in 2025, the interest rate corridor will begin to slowly expand until it reaches 30 percent in 2030. To prevent interest rates from reaching dangerous levels moving forward, ARPA also establishes a minimum deemed 25-year average interest rate of 5 percent.

The interest rate stabilization changes are generally effective for plan years beginning after 2019. However, plan sponsors are authorized to delay implementation until 2022.

162(m) Compensation Deduction Limit

Internal Revenue Code section 162(m) prohibits publicly traded companies from deducting more than $1 million in compensation paid to certain covered employees. Prior to ARPA, the list of covered employees included the CEO, CFO and the three other highest paid officers for a given year. Further, once an officer

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is considered "covered" in any year after January 1, 2017, they are also included as a covered employee for all subsequent years.

ARPA expands the list of covered employees subject to the section 162(m) deduction limit effective January 1, 2027, to include the next five highest paid employees for a given tax year, regardless of whether they are officers. Unlike the top five officers however, these employees are not permanently considered covered employees.

Multiemployer Provisions

Plan sponsors may also be interested in ARPA's sizable impact on multiemployer plans, including:

- Special financial assistance for critically underfunded multiemployer plans, which essentially provides full funding until the 2051 plan year;
- Extended amortization bases mirroring the single employer plan relief described above; and
- An increase in Pension Benefit Guaranty Corporation premiums for plan years beginning after December 31, 2030, from $31 per participant to $52 per participant (indexed to inflation).

Plan sponsors should work with their actuaries and legal counsel to determine when and how to take advantage of ARPA's relief provisions. If you have questions about the potential impact these legal changes could have on your benefit plans, please contact Paul Beery, Martha Mohs or your Reinhart attorney.