



Pension Relief Act of 2010

Making the Most of Funding Relief

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Charles A. Storke, Trucker Huss

Cary Franklin, FSA, Horizon Actuarial Services, LLC



Origins of the Relief Bill

- March 2009 – “Brainstorming”; 30-year fresh-start idea
- May 2009 – Counter-proposal: isolate 2008 investment loss for longer amortization
- August 2009 – Pomeroy Bill: includes both fresh-start and “investment loss only” approaches
 - Fresh-start approach rejected; focus on investment losses
- March 2010 – Senate version of relief
- May 2010 – House version of relief (H.R. 4213)
- June 2010 – Senate version (H.R. 3962) becomes law



Battling Relief Bills: House vs. Senate

- House version (H.R. 4213)
 - Simple formula for recognizing 2008 losses
 - Clear, “self-executing” approach
 - Treasury guidance not critical to implementation
- Senate version (H.R. 3962)
 - Ambiguities in key provisions
 - Does relief apply to Market Value or Actuarial Value investment loss?
 - Guidance needed for consistent interpretation
- Expected the House version, got the Senate version



Key Provisions of Relief Act

- 29-year amortization of 2008 investment loss
- Up to 10-year smoothing of 2008 loss
- 130% market value corridor
- Solvency test
- Limits on benefit improvements
- Re-certification of zone status?
- Notice to participants, PBGC



Implementing the Relief

- Without guidance, how do we implement relief?
- Need approach for loss recognition and amortization that is:
 - Supported by the Act's language
 - Consistent with the intended relief
 - Not dependent on post-2008 experience
 - Consistent with sound actuarial principles

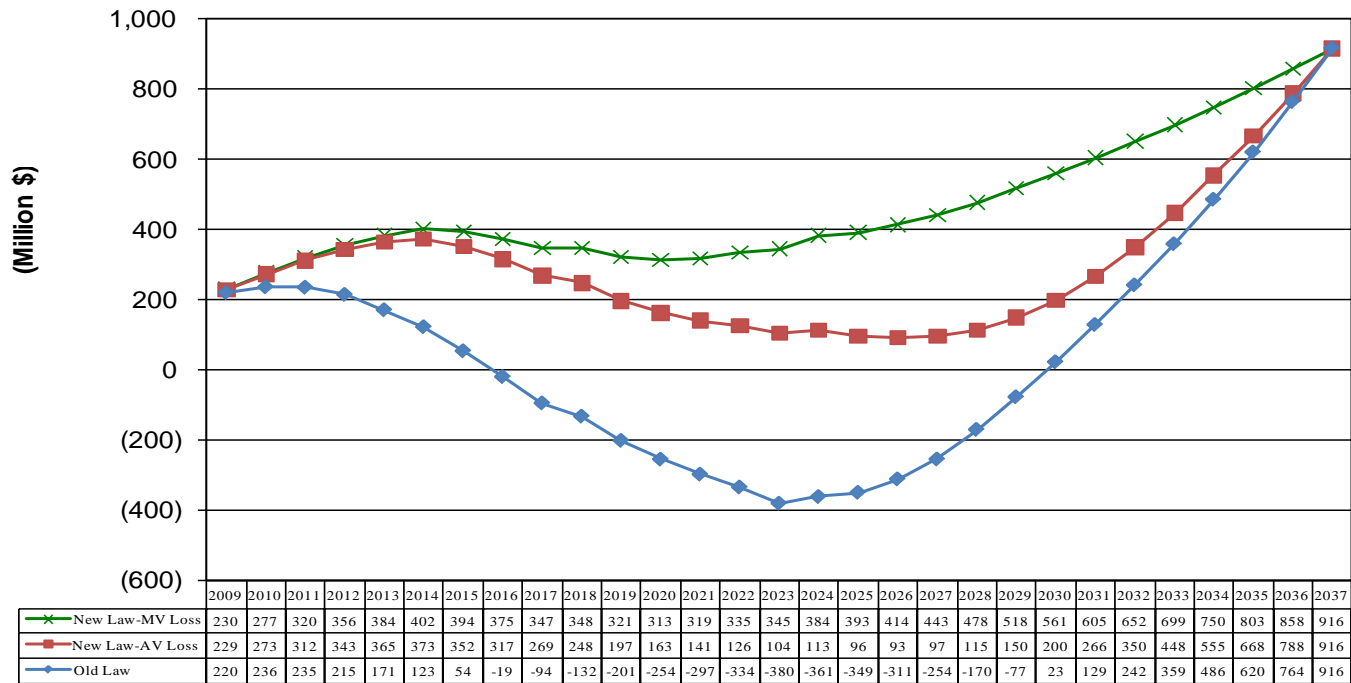


Recommended Approach (Horizon)

- Change asset method first (longer smoothing, 130% cap), if desired
- Next, project Credit Balance as if no market value gain/loss in 2008 or later
- Then, project Credit Balance with 2008 market value loss, but no subsequent gains/losses
- The difference isolates the future investment loss “bases” attributable to 2008 market value loss – these bases are amortized over 29, 28, 27... years
- “Other” gain/loss still amortized over 15 years

Relief Illustration

Projected Credit Balance
At End of Year





Implementing the Relief

- Horizon approach satisfies criteria
- Draft Q&A suggested as basis for regulations, other guidance
- Provided to Treasury officials, American Academy of Actuaries, actuarial firms
- No guidance yet – IRS Notice 2010-56:
 - No questions answered
 - File 5500 on time; relief can be applied later
 - IRS “anticipates issuing future guidance”



What Now (if no guidance)?

- Form 5500 deadline rapidly approaching; file Schedule MB under old law, re-file later
- Pursue recommended approach
- Assess impact on minimum funding, Funding Improvement Plans, Rehabilitation Plans
 - Can FIPs and RPs be revised to reflect relief?
- Hopefully, broad support for recommended approach will carry weight with Treasury
 - Alternatively, approach becomes “good faith standard” if no guidance issued



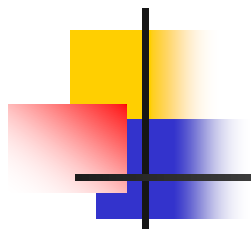
Other Unresolved Issues

- Solvency test – interpretation
- Freeze on benefit improvements
 - What constitutes a plan amendment?
- Re-certify PPA status for 2010?
- “Spread gain” cost methods (where loss not specifically identified)



In the Meantime...

- Boards of Trustees should understand Relief Act impact
 - What happens to FIPs and RPs?
- Board must elect specific provisions
 - 29-year amortization
 - 10-year smoothing
 - 130% market value cap
 - In most cases, 29-year amortization and 10-year smoothing are helpful, 130% cap is not



Questions?