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Fast Facts

Contribution Analysis: U.S. Single Employer Pension Plans

SUMMARY

Funding pension plans involves many intricate factors, including complex funding regulations, investment returns, discount rates and other actuarial assumptions, and business objectives and constraints. Regardless of the intricacies, the goal is to provide the plan with enough assets to pay participants' benefits when they come due.

This study analyzes whether contributions—in isolation from other factors that affect pension plan funded status—reduced the unfunded liabilities of U.S. single employer pension plans (typically, corporate plans).

Most plans did not have an unfunded liability in 2016 under federal law.[1] Of the 27% of plan liabilities associated with plans that had an unfunded liability for 2016, 16% contributed enough to reduce their unfunded liabilities and 11% fell short.

Only 1% of plan liabilities were associated with plans that failed to make their Minimum Required Contribution under federal law.

HIGHLIGHTS

- In 2016, 27% of plan liabilities were in plans that had an unfunded liability when computed with the smoothed discount rates allowed under federal law.[1] This percentage increased from 11% in 2015.
- Of the 27% of plan liabilities associated with plans that had an unfunded liability in 2016, 16% was attributable to plans that contributed enough to reduce their unfunded liabilities, while 11% was attributable to plans that fell short.
- Only 21% of plan liabilities were associated with plans that had a Minimum Required Contribution (MRC) in 2016. Even though a plan may have an unfunded liability, it may have no MRC because of carryover and prefunding balances—mechanisms for recognizing that past contributions were greater than required.
- Less than 1% of plan liabilities were associated with plans that contributed less than their MRC for 2016.
- Using unsmoothed discount rates, 78% of liabilities in 2016 were associated with plans with an unfunded liability. Of the 78%, 32% was associated with plans whose contributions reduced their unfunded liabilities, while 46% was attributable to plans that fell short of preventing their unfunded liability from growing.[2]

[1] Internal Revenue Code §430 and accompanying regulations define funding rules for single employer pension plans.

[2] For this study, unsmoothed corporate bond rates refer to monthly average spot rates published by Internal Revenue Service as the Treasury High Quality Market Corporate Bond Yield Curve. As monthly averages, these rates are slightly smoothed, but they are essentially unsmoothed relative to the 25-year averaging allowed under current law. In the current economic environment, smoothed rates are higher than unsmoothed rates.

LINK TO FULL REPORT

Contribution Analysis: U.S. Single Employer Pension Plans
https://www.soa.org/resources/research-reports/2017/single-employer-contribution-indices/

METHODOLOGY

- Time frame: 2009–2017; the most recent year of complete reporting is for plan years beginning in 2016. In addition, 2017 data reflect reporting for roughly 89% of plans.
- Computation:
  - Benchmark for reducing unfunded liability: Normal cost plus interest on the unfunded liability. To reduce the unfunded liability, contributions must exceed this benchmark.
  - Benchmark for eliminating unfunded liability in 7 years: normal cost plus 7-year, level-amount amortization payment on the unfunded liability. To reduce the unfunded liability, contributions must exceed this benchmark.
- Funded status: liabilities are computed with the unit credit actuarial cost method and compared to the market value of assets.

REPORT SPECS

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- Data source: Department of Labor database of Form 5500 "Annual Return/Report of Employee Benefit Plan" filing database as of Dec. 6, 2018.

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