Our Company Sponsored Defined Benefit Plan Is Frozen… Why Is It Still Costing Us So Much Money?

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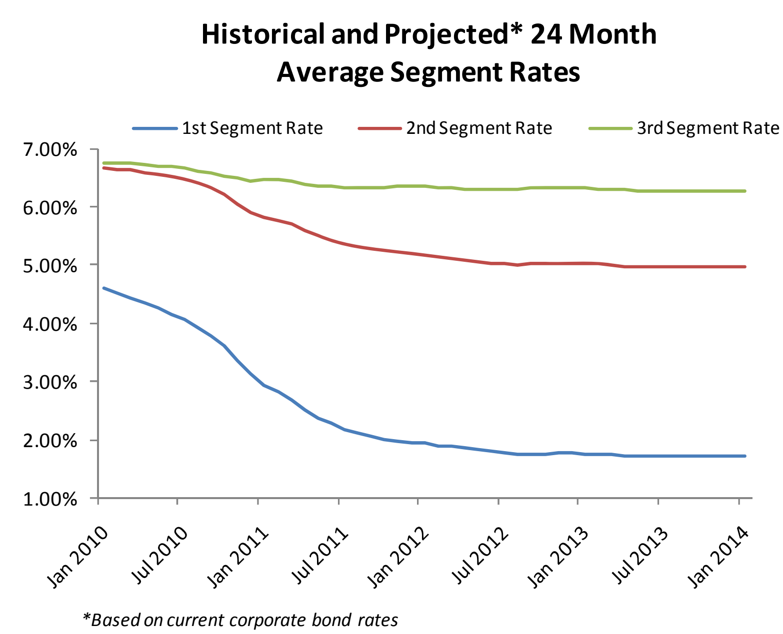
September 6, 2011

Many Plan Sponsors have frozen their company's Defined Benefit (DB) Plan to help reduce or stabilize costs given the state of the economy. So now that your DB plan is frozen, the plan's cost to the company over the last couple of years has gone down dramatically, right? Not necessarily.

Federal Reserve Announces Continued Low Interest Rates In August 2011

It should come as no surprise that DB plan costs have generally risen significantly since the Pension Protection Act of 2006 (PPA) became effective in 2008. PPA's impact on DB plans due to interest rates alone has been a major headache for plan sponsors. The current market of record low interest rates has made it extremely difficult for plan sponsors to fund their DB plans. While the IRS has allowed temporary funding relief in the past through one-time elections of favorable interest rates, any future relief is unlikely. Is it possible for short-term interest rates to remain in this record low state? Well, on August 9, 2011 the Federal Reserve announced that they would keep the benchmark interest rate at "exceptionally low levels" through mid-2013. What does that mean for your company's DB plan? Low interest rates increase the present value of plan liabilities and ultimately, the ERISA minimum required contribution. Has your actuary helped you plan for these increases?



S&P Decreases 5.7% In August 2011

Plan Sponsors can't control the impact interest rates will have on DB Plan liabilities, but they can try to target higher asset returns for 2011 to help offset these increases. To date, 2011 has been a very interesting year for market returns. Before August, the expected annual market return for the year was on track to be relatively high. As you know, last month was very volatile and essentially wiped out most of the gains experienced thus far. In the remaining four months of the year, if the market experiences a 5% decrease or worse, is your company financially prepared for significantly higher contributions in 2012?

As A Plan Sponsor, How Can I Help Plan For My Company's Future?

Even though your company's DB plan is frozen, it is very important to actively manage the plan to help achieve the short-term and long-term goals of the company. You need to be prepared for the risks that market fluctuations, as well as changes to fiscal policy, may have on the plan. Being proactive will help your company reduce exposure to these risks. Are you currently having these discussions with your Actuary?

WHAT TYPES OF QUESTIONS SHOULD I BE ASKING THE ACTUARY?

- ✓ How much larger will the 2012 minimum required contribution be compared to 2011?
- ✓ Will the plan be subject to restrictions on benefits?
- ✓ Will the plan have additional funding requirements?
- ✓ Will we have to prepare an additional PBGC filing?

The Actuaries at *Atéssa Benefits, Inc.* are available to discuss these questions in further detail. It is critical to have as much time as possible to budget for unexpected increases to DB plan costs and avoid unexpected filing requirements that your company may incur in 2012 and beyond. After all, failing to plan is planning to fail.
