AICPA Publishes Analysis of Economic Crisis' Impact on Pension Funding

The AICPA has developed a new whitepaper, "Temporary Pension Relief Will Aid Economy, Protect Workers," to raise awareness of the pension funding issue which will soon squeeze many American businesses. "Given the volatility in the capital market, many companies with defined benefit plans will likely be required to infuse a significant amount of money into their pension plans because of the declining value of the underlying pension plan assets," stated Scott Spiegel, CPA/CITP, chief financial officer for AICPA. "And in the current environment where banks are tightening their lending requirements, companies that may need to borrow this money may have a harder time obtaining the financing they need."

On Dec. 10, 2008, as one of its final acts, the 110th Congress adjusted pension funding rules to help ease a short-term cash squeeze created by the economic collapse. But new data, including a year-end drop in interest rates that boosted required contributions, show that the relief was not enough.

In 2008, America's employers made $38 billion in required contributions to pension plans. This year, under the current payment schedule, they will need to pay almost three times as much ($108.7 billion) — a difficult requirement to meet when profits are crumbling, credit is inaccessible and investments are performing poorly.

In anticipation of such problems, Congress enacted the Worker, Retiree and Employer Recovery Act of 2008 (WRERA) to temporarily adjust pension funding rules for single-employer retirement plans. However, new data estimates that this will have little impact on the overall pension funding problem. WRERA only freed about $16.4 billion from the pension pipeline. That's less than one-sixth of the amount required by a funding schedule developed through the Pension Protection Act of 2006. The Act was the most comprehensive pension reform legislation since the Employee Retirement Income

Security Act was enacted in 1974. Among other things, the Act strengthened: plan reporting and participant disclosure rules and required stricter funding rules for single-employer and multiemployer defined benefit pension plans.

In 2006, pension plan investment returns investment returns likely appeared to play a big role in keeping the accounts fully funded. However, the crash of 2008 changed this situation by sharply cutting the value of pension assets. Liabilities also rose, and fund surpluses turned into deficits almost overnight.

In response, the AICPA issued a call to action, partnering with more than 350 organizations in a collaborative effort to petition congressional legislators for additional relief (http://www.aicpa.org/download/news/2008/081112_MultiIndustry_Funding_Letter_WM.pdf). The AICPA also released a whitepaper, “Temporary Pension Relief Will Aid Economy, Protect Workers,” to educate the public and the profession on the matter (http://economy.aicpa.org/2009/03/temporary-pension-relief-will-aid-economy-protect-workers.html).

The whitepaper explores the impact of WRERA and the challenges organizations will face in 2009 and 2010. Despite the passage of WRERA, both the required contribution levels in 2009 ($108.7 billion) and 2010 ($102.8 billion) will significantly increase, nearly tripling the contribution amounts from 2008 ($38 billion). Additionally, some employers that fail to meet the minimum 80 percent funded threshold may have to contribute an additional $3.2 billion.

A recent survey published by the AICPA in partnership with UNC Kenan-Flagler Business School, “Q1 2009 AICPA/UNC Business and Industry Economic Outlook Survey,” revealed that most respondents believed WRERA would not affect their contributions enough or were unsure of the effects. The full results of the survey (http://economy.aicpa.org/2009/03/costcutting-most-effective-strategy-to-survive-a-recession.html) are available from the

AICPA’s Economic Crisis Resource Center (http://economy.aicpa.org), as is the whitepaper (http://economy.aicpa.org/2009/03/temporary-pension-relief-will-aid-economy-protect-workers.html).

The AICPA launched the Economic Crisis Resource Center earlier this year to provide AICPA members with the information they need to assist their clients, employers and communities during these difficult economic times. The Economic Crisis Resource Center contains tools to help CPAs, and their employers and clients minimize the effects of the recession. The tools include webcasts, articles and CPE courses on strategic planning, budgeting, fraud detection and maintaining the public trust, as well as podcasts and blogs. The AICPA continually updates the Center’s resources and information, including government actions and court rulings.