

Impact of ARPA on Multiemployer Pension Plans

Before President Biden signed the American Rescue Plan Act of 2021 (ARPA) into law, financial crisis was looming for many multiemployer plans. More than 130 multiemployer pension plans estimated that they would run out of money within 20 years and the PBGC itself was projected to become insolvent in 2026.

Although not a permanent solution, ARPA includes important relief for eligible multiemployer pension plans and provides plan sponsors with an opportunity to return to a state of solvency which may not have been possible otherwise.

Summary of Issue

Projections made in 2019 by the Pension Benefit Guaranty Corp. (PBGC) indicate that almost ten percent of multiemployer plans insured by the agency would run out of money within 20 years. The same report indicates that PBGC's multiemployer program is on track to be insolvent by 2026.

In an effort to help the nation recover from the COVID-19 pandemic and related economic crisis, President Biden signed the \$1.9 trillion [American Rescue Plan Act](#) of 2021 (ARPA) on March 11, 2021. The law includes stimulus checks, state and local government aid packages, and other measures to support the ongoing economic recovery.

Breaking Down the Relief Details

By providing funding relief for single-employer defined benefit plans and special financial assistance for failing multiemployer pension plans (MEPP), ARPA helps U.S. pension plans address:

- The impact of 2020's dramatic economic downturn
- Market volatility
- Record-low interest rates

Additional MEPP relief comes in the form of:

- **Funding status.** MEPPs may retain 2019 plan funding status for 2020 and 2021.
- **Extended rehabilitation periods.** MEPPs currently in endangered, critical, or critical and declining status have the option to extend funding periods for improvement or rehabilitation for 2020 and 2021.
- **Easing of funding standard account rules.** MEPPs can effectively use pre-COVID funding standard account assessment results. This can be done by considering losses related to the COVID-19, including reductions in contributions or employment, as well as

deviations from anticipated retirement rates. More specifically, when determining actuarial value of plan assets, MEPPs can smooth investment losses over a period of up to 10 years (as compared to the “normal” 5-year period) in one or both of the two plan years ending after February 29, 2020.

- **Premium increases.** Multiemployer Pension Plan PBGC Premium Rates Increased
- **Financial assistance.** ARPA makes available a lump sum cash payment to “severely distressed” MEPPs that are underfunded. The intent is to help plans pay their participants’ benefits through 2051.

ARPA gave PBGC the authority to distribute more than \$80 billion as grants in the form of special financial assistance (SFA) to troubled multiemployer plans that meet one of the following criteria:

- In any plan year beginning **2020 through 2022**, the plan is in critical and declining status, is less than 40% funded, and has more retirees than active participants
- The plan has been approved to suspend benefits under the Multiemployer Pension Reform Act of 2014 (MPRA) by March 11, 2021
- The plan became insolvent after December 14, 2014, but is not fully frozen or terminated

Those Plans in the most critical statuses are eligible to submit applications for special financial assistance now. [Application periods](#) for other eligible plans open in April 2022 and will continue through February 2023.

Key Question: How Can Plans Apply for Relief?

*“A plan that is in critical and declining status (running out of money) or critical status **may become eligible for special financial assistance in the future** if it meets special financial assistance eligibility requirements.”*

In July 2021, the PBGC issued an [interim final rule](#) (IFR) for the SFA program. Together with related guidance, the IFR outlines the process eligible MEPPs must follow to apply for SFA.

“Under § 4262.10(d) of PBGC’s SFA regulation, initial applications must be filed no later than December 31, 2025, and revised applications must be filed no later than December 31, 2026. Plans in priority groups will be given the opportunity to file before March 11, 2023.”

Application Periods

Plans can apply for SFA in order of critical status based on the Priority Groups established by the PBGC. The application periods vary by Priority Group as follows:

Priority Group	Plan Descriptions	Target Date Plans May Apply for SFA*	Status
1	Already insolvent or projected to become insolvent before 3/11/2022	7/9/2021	OPEN
2	Expected to be insolvent within one year of the date the plan's application is filed	12/27/2021	OPEN
	Implemented MPRA benefit suspensions before 3/11/2021**	1/1/2022	OPEN
3	Greater than 350,000 participants	4/1/2022	CLOSED
4	Projected to become insolvent before 3/11/2023	7/1/2022	CLOSED
5	Projected to become insolvent before 3/11/2026	2/11/2023	CLOSED
6	Present value of financial assistance in excess of \$1 billion	2/11/2023	CLOSED

*PBGC has 120 days to review an application. If capacity to process applications exceeds expectations, then the dates to accept applications may be accelerated.

**MPRA plans can restore benefits under 26 CFR 1.432(e)(9)-1(e)(3) at any time, including before applying for SFA.

As of March 2022, multiemployer plans in [Priority Group 1](#) and [Priority Group 2](#) can submit completed applications for Special Financial Assistance at <https://efilingportal.pbgc.gov/site/>.

Learn More

We recommend that plan sponsors carefully review the unique SFA situation for their particular plan in order to move forward. For help with questions about filing benefits, priority groups, drawbacks, or anything else related to multiemployer benefit plans and ARPA, contact PBMares today.