GLOBALpensions

US funding reform warning

US - Tighter funding obligations being considered as part of the US single-employer pension funding reform proposals could have the reverse effect of forcing "borderline" companies onto the federal insurance programme, industry experts have claimed.

The new rules are intended, in part, to reduce the exposure of the federal insurer, the Pension Benefit Guarantee Corporation (PBGC), to future losses from financially weak companies.

Harold Ashner, a partner with the law firm Keightley & Ashner LLP and the PBGC's former assistant general counsel for legislation and regulations, said: "Dramatic increases in funding obligations may not help the PBGC if the increases push employers who otherwise could have survived over the edge, thereby creating claims on the insurance programme that could have been avoided."

Jim Keightley, also a partner at the firm and the PBGC's former general counsel, added: "There could be sponsors that with more moderate funding could have maintained their plan long-term and never been a loss for the PBGC."

Funding proposals under discussion include significant reductions in companies' ability to smooth year-to-year fluctuations in their pension funding obligations; limitations on their ability to use previous "extra" contributions to satisfy obligations; and sharply increased funding requirements for a possible new class of "at risk" plans.

James Klein, president of the American Benefits Council, said many of the proposed changes would inject instability into the funding obligations that would exacerbate the trend away from the sponsorship of defined benefit plans.

He pointed to the inability of companies to use so-called credit balances built up during periods when they contributed more to the plan than was required, and noted the sensitivity of the new rules to minor fluctuations in interest rates, affecting the amount companies would have to contribute to their pension plans on a year-to-year basis.

"These are all aspects... which would make it simply more unpredictable in terms of companies knowing what their financial obligations would be to their pension plans over the next few years," he said.

A spokesman for the PBGC directed all inquiries about the proposed pension reform legislation to the US Department of Labor (DoL). The DoL said a system allowing systematic underfunding by some plans created a moral hazard, driving responsible and well-funded plans out of the system. Rather than putting more pressure on the insurance system, reform was essential to preserve it, the department added.

By Lisa Haines