Additions to EA-2F Course Outline and Problems
Fall, 2021

American Rescue Plan Act of 2021 (ARPA)

ARPA added a new IRC section 430(c)(8) changing the amortization period for single employer plan shortfall amortization bases from 7 years to 15 years, for years beginning after 2021. (There is also an option to elect to do this for plan years beginning in 2019, 2020, and 2021.) The outstanding balance of all shortfall amortization bases for years prior to 2022 (or the earlier elected year) are reduced to zero, resulting in a fresh start for shortfall amortization bases beginning in 2022 (or the earlier elected year). Waiver amortization bases are not affected by this change.

ARPA has also modified the MAP-21 stabilization rules for segment rates by changing the phase-in of the minimum and maximum applicable percentages of the 25-year average segment rates under IRC section 430(h)(2)(C)(4) to read as follows (old phase-ins found on page 25 of outline):

For plan years beginning prior to 2020, the MAP-21 adjusted segment rate must be no less than 90% and no more than 110% of the 25-year average segment rate.

For plan years beginning in the years 2020 through 2025, the MAP-21 adjusted segment rate must be no less than 95% and no more than 105% of the 25-year average segment rate.

For plan years beginning in 2026, the range is no less than 90% and no more than 110% of the 25-year average segment rate.

For plan years beginning in 2027, the range is no less than 85% and no more than 115% of the 25-year average segment rate.

For plan years beginning in 2028, the range is no less than 80% and no more than 120% of the 25-year average segment rate.

For plan years beginning in 2029, the range is no less than 75% and no more than 125% of the 25-year average segment rate.

For plan years beginning after 2029, the range is no less than 70% and no more than 130% of the 25-year average segment rate.

In addition, there is a floor on the stabilized interest rate of 5% (this applies to all of the first, second and third segment rates).

The plan sponsor may elect to delay the changes to the stabilized interest rates until the plan year beginning in 2022, as this would otherwise result in a retroactive change to the stabilized segment rates for 2020 and 2021.

With regard to multiemployer plans, ARPA allows for multiemployer plans to temporarily delay the determination of the plan being in endangered, critical or critical and declining status. Additionally, for plans already in endangered or critical status, a 5 year extension to the funding improvement or rehabilitation plan period can be elected. There is also a financial assistance program available for financially troubled multiemployer plans.

All of the above is not expected to be tested on the 2021 EA-2F exam. The Joint Board has added 3 temporary general conditions to the exam for 2021, as follows.

(A) For multiemployer plans, assume none of the elections to effectuate the provisions of the American Rescue Plan Act of 2021 (ARPA) were made. Assume the multiemployer plan did not apply for special financial assistance under ARPA.
(B) For single employer plans, unless otherwise stated or implied in the question, assume the plan sponsor did not make an election to apply the 15-year amortization period under ARPA to plan years beginning before 2022.
(C) For single employer plans, unless otherwise stated or implied in the question, assume the plan sponsor did make an election to defer the changes to the segment rates under ARPA for all purposes to the plan year beginning in 2022.

There is also a new general condition number 69 stating that a multiemployer plan has never applied for approval to receive financial assistance under ARPA.

These general conditions mean that the provisions of ARPA can be ignored for multiemployer plans. For single employer plans the provisions of ARPA can be ignored for years beginning before 2022. It is highly unlikely that there would be an exam question dealing with a single employer plan in 2022 where the provisions of ARPA would come into play, because there are a lot of issues that need to be resolved in regulations.

Here is an example of how a 2022 single employer funding question might look, although it is unlikely to be tested this year.

<u>2022 single employer funding question</u>

Plan effective date: 1/1/2015

Prefunding balance as of 1/1/2022: $10,000

Actuarial assumptions for 2022:

> Segment interest rates: (5%, 6%, 7%)
> Effective rate of interest: 6%

Outstanding balance of shortfall amortization bases
from years prior to 2022 as of 1/1/2022: $18,000

Valuation results for 2022 as of 1/1/2022:

Target normal cost	$40,000
Funding target	360,000
Actuarial value of assets	320,000

Contribution for 2022: $X, deposited on 1/1/2022.

What is the value of $X such that it is the **<u>smallest amount that satisfies the minimum funding standard</u>** for 2022?

Solution

The funding shortfall is equal to the excess, if any, of the funding target over the actuarial value of the assets (reduced by the prefunding balance).

Funding shortfall as of 1/1/2022 = $360,000 – ($320,000 – $10,000) = $50,000

The funding shortfall is generally reduced by the outstanding balance of any prior shortfall bases. However, for 2022 there is a fresh start on the shortfall amortization bases, and all prior bases are deemed to be fully amortized.

Beginning in 2022, the shortfall amortization charge is determined by amortizing the funding shortfall over 15 years using the segment interest rates. The first segment interest rate is used to discount the first 5 payments, and the second segment interest rate is used to discount the last 10 payments. The amortization installment for the new shortfall amortization base is:

Shortfall amortization charge = $\$50{,}000 \div (\ddot{a}_{\overline{5}|.05} + \ddot{a}_{\overline{10}|.06}\, v^{5}_{.06}) = \$4{,}819$

The smallest amount that satisfies the minimum funding standard on 1/1/2022 is equal to the minimum required contribution, which is the sum of the target normal cost and the shortfall amortization installment, and reduced by the prefunding balance.

$X = ($40,000 + $4,819 – $10,000) = $34,819