UTILIZATION OF MAP-21 PENSION FUNDING STABILIZATION IN 2012—SOME DESCRIPTIVE STATISTICS

April 28, 2014

The pension funding stabilization provisions of the Moving Ahead for Progress in the 21st Century Act (MAP-21) first became effective for applicable defined benefit plans in 2012. As of April 2014, the 2012 regulatory filings for most of these defined benefit plans were publicly available.[1] These filings provide an opportunity to discover characteristics of the plans affected by the provisions and the extent to which the plans were affected.

This fact sheet presents a brief summary of data that is readily available from the regulatory filings. Potential areas for deeper analysis can be found at the end of this brief.

HIGHLIGHTS

Plans with greater participant counts, higher proportions of inactive participants, and lower funding ratios were more likely to have the stabilization provisions applied to the determination of their funding requirements.[2]

Of the plans that had the stabilization provisions applied to the determination of their funding requirement, 59 percent received contributions in excess of the required amount for 2012.

As a category, the plans that had their funding requirements deferred by the stabilization provisions and then received no excess contributions for 2012 were neither the worst- nor the best-funded plans.

Sponsors can effectively reserve credit for the reduced 2012 funding requirements and apply the credit to future funding requirements. As a result, the reductions caused by the stabilization provisions may have value to sponsors regardless of the amount of contribution deferral utilized in 2012.

1 The data is available at http://www.dol.gov/ebsa/foia/foia-5500.html. The analysis in this brief includes 6,692 plans with 100 or more participants. A little more than 9,000 single-employer, defined benefit plans with 100 or more participants filed a 2011 Form 5500. Additional information about data selection can be found in the appendix.

2 For purposes of this paper, the term "funding requirement" refers to the total funding requirement before reflecting carryover/prefunding balances, as calculated for line 34 of the Form 5500 Schedule SB.

CHARACTERISTICS OF PLANS THAT EXPERIENCED DEFERRAL OF FUNDING REQUIREMENTS

With relatively few exceptions, all private-sector, single-employer, defined benefit plans could have their funding targets[3] measured with the pension funding stabilization provisions of MAP-21. Sponsors of eligible plans could elect whether or not to apply the stabilization provisions for purposes of determining their 2012 funding requirements. Our analysis compares plans on either side of this election, providing insights that help to distinguish the plans that experienced deferral of their 2012 funding requirements as a result of the provisions from the plans that did not.[4]

Table 1 summarizes a few descriptive statistics for eligible plans, separating the statistics by whether the stabilization provisions were applied in the determination of the 2012 funding requirement.[5] Approximately 81 percent of the plans and 91 percent of the aggregate funding target reviewed had the stabilization provisions applied in the calculation of their funding requirements. Frozen plans and plans with funding waivers had the provisions applied with slightly greater frequency than the overall sample—83 percent and 87 percent respectively. However, the average number of participants and the proportion of inactive participants were significantly higher in the plans affected by the provisions, indicating the provisions were more likely to apply to larger, more mature plans.

Plan Characteristics Segregated by Application of MAP-21 Stabilization	Stabilization Provisions Were Applied	Stabilization Provisions Were Not Applied
Number of Plans	5,425	1,267
Number of Frozen Plans[6]	1,951	401
Number of Plans with a Funding Waiver	20	3
Average Participant Count	4,507	1,845
Average Proportion of Plan Population Not Actively Employed by the Sponsor	60.2 %	50.1 %

TABLE 1

Table 2 presents statistics that describe valuation results for the plans in our sample.[7] A comparison of 2011 and 2012 statistics for plans that had the stabilization provisions applied illustrates how the provisions affected their valuations. A comparison of funding ratios indicates that the plans that had the stabilization provisions applied to their valuations generally had lower funding ratios than the plans that did not have the provisions applied. Note that even though the average 2012 funding ratios appear to be equivalent, the plans with the stabilization provisions applied would report much lower funded statuses (or the plans without the provisions applied would report higher funded statuses) if their funding targets were measured on an equivalent basis.[8]

3 For purposes of this paper, the term "funding target" refers to the present value of a plan's accrued benefits determined using assumptions prescribed by statute.

4 This data provides a description of the plans affected by the stabilization provisions. The data does not provide significant insight to sponsor motivations regarding the election to use the stabilization provisions, as numerous other considerations—such as increased Pension Benefit Guaranty Corporation (PBGC) premiums—likely influenced sponsor elections.

5 Stabilization provisions were assumed to apply if the segment rates disclosed in a plan's Form 5500 Schedule SB filing matched the segment rates published by the Internal Revenue Service in Notice 2012-55.

6 As indicated by a code "1L" on line 8a of the Form 5500. Such plans do not provide "new benefit accruals (whether because of service or compensation)."

7 The statistics in Table 2 are for 6,286 plans with corresponding 2011 and 2012 5500 filings.

8 The average interest rate for plans that did not have the stabilization provisions applied was 5.46 percent. For plans with the provisions applied, it was 7.01 percent. Our report on Proposed Pension Funding Stabilization includes a discussion of the effects that the provisions would have on the disclosure of defined benefit liabilities.

Plan Characteristics Segregated by Application of MAP-21 Stabilization	Stabilization Provisions Were Applied		Stabilization Provisions Were Not Applied	
	2011	2012	2011	2012
Funding Ratio[9]	88.0%	102.9%	104.6%	101.9%
Average Funding Requirement as a Percentage of Funding Target	6. 4%	3. 5%	6.3%	5.3%
Total Funding Requirement ($Billions)	$59.5	$30.5	$4.6	$4.4

TABLE 2

DISTINGUISHING PLANS BY THE DEGREE OF CONTRIBUTION DEFERRAL EXPERIENCED

The plans that had the stabilization provisions applied to the determination of their funding requirements in 2012 can be further classified by the degree to which lower funding requirements led to the receipt of lower contributions for 2012. The stabilization provisions lowered funding requirements where they were applied. However, the data reveals that many sponsors chose to contribute more to their plans than the reduced statutory requirement demanded.[10] Therefore, this additional classification helps to distinguish between plans that, in addition to the deferral of funding requirements, experienced different degrees of contribution deferral as a result of the provisions.

Table 3 shows descriptive statistics for the subset of plans that had the stabilization provisions applied to the determination of their funding requirements, categorized by how much sponsor contributions to the plans exceeded their funding requirements for the 2012 plan year. Plans that received no excess contributions experienced the greatest utilization of contribution deferral because contributions (and credit for prior advance funding) just met the reduced requirements. Greater excess contributions indicate less utilization of the deferral available as a result of the stabilization provisions. Approximately 59 percent of the plans and 56 percent of the aggregate funding target in this subset received excess contributions.

[9] Funding status calculated as actuarial value of assets (AVA) divided by the funding target (FT) disregarding prescribed at-risk assumptions.
[10] See also Did MAP-21 Decrease Pension Contributions? Russell Research, 2013.

Plan Characteristics Segregated by Level of Excess Contributions[11]	Number of Plans	Average Participant Count	Average Funding Target ($Millions)	Average Funding Ratio (AVA/FT)	Decrease in Total Funding Requirements, 2011–2012[12] ($Billions)	Decrease (Increase) in Total Contributions, 2011–2012[12] ($Billions)
No Excess Contributions	2,231	4,869	274	100. 5%	$9.0	$13.5
Excess Contributions < 1% of the Funding Target	588	3,863	250	96.1 %	$2.2	$0.7
Excess Contributions 1%–2% of the Funding Target	419	3,356	237	99.4%	$1.7	$1.9
Excess Contributions 2%–4% of the Funding Target	652	3,194	182	100.6 %	$2.5	$1.4
Excess Contributions 4%–8% of the Funding Target	730	5,184	255	108. 2%	$5.6	($0.4)
Excess Contributions > 8% of the Funding Target	805	5,022	279	115. 0%	$8.0	($13.3)
Total					**$29.0**	**$3.8**

TABLE 3

One might expect that the plans receiving no more contributions than the reduced minimum requirement would have the lowest average funding ratio. Contrary to this expectation, the category of plans that receive no excess contributions has an average funding ratio that is approximately in the middle of the range of funding ratios reported by the plans in Table 3. Nonetheless, there is a positive correlation between the amount of excess contributions and the funding ratio for plans in the sample, and the average funding ratio for each category would be less than the average funding ratio for plans that did not have the stabilization provisions applied to the determination of their funding requirements if compared on a consistent basis.

The statistics in Table 3 indicate that the end categories, plans receiving no excess contributions and plans receiving excess contributions greater than 8 percent of their funding targets, have the largest average funding targets and the largest aggregate opportunities to defer funding requirements. It is notable that the latter category of plans received more contributions in 2012 than it did in 2011—enough to offset the decrease in contributions received by plans in the category that received no excess contributions.

Overall, the aggregate funding requirement of plans that had their liabilities measured with the stabilization provisions declined by $29 billion from 2011 to 2012. The aggregate amount of contributions received by these plans declined by $3.8 billion over the same period.[13]

We note that Table 3 only reflects contribution experience in 2011 and 2012. Reductions in the 2012 plan year funding requirements may be "saved" and applied to future funding requirements via advance funding credits. As a result, it is possible that plans receiving excess contributions in 2012 may have funding requirements deferred from a later point in time.

[11] Excess contributions were scaled relative to each plan's reported funding target to provide a sense of the relative funding improvement. A comparison of contributions to the pre-stabilization funding requirement would provide additional insight to the utilization of deferral allowed by the MAP-21 provisions.

[12] The tabulations in these columns include 5,078 plans that had the stabilization provisions applied to the determination of their funding requirements and had corresponding 2011 and 2012 5500 filings; 347 plans in our subset of 5,425 did not have corresponding filings.

[13] For 5,078 plans in our sample. See footnote 12.

CONCLUSION AND AREAS FOR ADDITIONAL ANALYSIS

The tables in this brief provide an abbreviated analysis of how the pension funding stabilization provisions of MAP-21 affected defined benefit plan contribution experience in 2012. The data available thus far shows a clear distinction between the funding ratios of plans that did or did not have the provisions applied to the calculation of their funding requirements. Plans that had the provisions applied to their funding requirements had a much lower average funding ratio when compared on a consistent basis.

The same distinction does not appear in the description of plans that experienced contribution deferral as a result of the stabilization provisions. While there is a correlation between the funded ratio of plans and their experience with contribution deferral in 2012, the plans that experienced the maximum deferral created by the stabilization provisions were not, as a class, among the worst-funded plans that had the stabilization provisions applied.

Additional analysis can improve the clarity of these basic insights. For example, more data about plan contribution experience will become available over time, allowing for better determination of contribution deferral periods and delayed utilization of the deferral opportunity. Future analyses of plan experience in the wake of the pension funding stabilization provisions may provide the public with greater insights into the effects of such policy initiatives.

Appendix: Methodology

The analysis in this brief used plan year 2011 and 2012 Form 5500 data available on the U.S. Department of Labor website as of April 11, 2014. The 2011 files are complete, and the 2012 files are partial because the deadline for filing has not passed for all plans.

A total of 33,961 records were selected from the 5500 data because they included a 2012 Schedule SB filing. Of these records, 6,692 records were selected for our sample as follows:

Records with a 2012 Schedule SB	33,961
Records Excluded Because Plan Had Fewer than 100 Participants	26,921
Records Excluded Because Key Data Fields Were Missing	348
Final Record Count	6,692

Plans with fewer than 100 participants were excluded from our analysis because they comprise a relatively small portion of aggregate private-sector, single-employer, defined benefit liabilities and possess unique characteristics that may be worthy of a separate analysis. Key data fields that could result in record exclusions included: total funding requirement before reflecting carryover/prefunding balances, discounted employer contributions, funding target disregarding prescribed at-risk assumptions, market value of assets, AVA, and/or the segment rates.

Of the 6,692 records in the selected sample of 2012 5500 filings, 6,286 had identifying data (EIN and PIN) that matched identifying data of plan year 2011 Form 5500 records. This sample of 6,286 records was used to calculate statistics comparing 2011 and 2012 data.

We assumed that the pension funding stabilization provisions of MAP-21 applied to the determination of funding requirements if the plan reported the following segment rates on line 21 of its Schedule SB: 5.54 percent, 6.85 percent and 7.52 percent. Otherwise, we assumed the provisions did not apply to the determination of the plan's funding requirement.

Except where noted, each plan in the sample had equal weight in the determination of averages.

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The Society of Actuaries (SOA), one of the largest actuarial professional organizations in the world, advances knowledge through research and education. Core principles for SOA research are: objectivity, quality, relevance and quantification. The SOA does not advocate for or against policies such as the pension funding stabilization provisions of MAP-21. Rather, the purpose of this brief is to provide objective information about the emerging implications of the provisions.