Bloomberg BNA

Benefits Practice Resource Center™

Defined Benefit Plans

Pension Contribution Bump Could Be Triggered by Trump Tax Changes

By David B. Brandolph

Pension plan sponsors may see President Donald Trump's proposal to lower corporate tax rates as the right time to load up on plan contributions to trigger greater deductions.

Contributions are tax-deductible for companies and will reduce current corporate taxable income by 35 cents for each dollar contributed. If Trump's tax proposals are implemented, future contributions may reduce such income by as little as 15 cents.

Snapshot

- Plan sponsors might increase contributions before lower tax rates arrive
- Contributions and interest rate hikes could lead to penalties for surplus assets
- Trend of issuing debt could be continued as way to fund contributions

"Many companies are considering making significant pension contributions during 2016 on the assumption that we may see lower corporate tax rates in 2017," Joel Eisenreich, principal with Deloitte Tax LLP in Parsippany, N.J., told Bloomberg BNA.

Companies that increase their contributions would also likely reduce plan premiums owed to the Pension Benefit Guaranty Corporation. PBGC variable-rate premiums are currently 3 percent of a plan's funding liability and are slated to rise in coming years.

Plans have until Sept. 15, 2017, to make contributions for plan year 2016.

Because contributions don't have to be made right away, sponsors have the luxury of waiting to see how tax reform plays out in the coming months, Alan Glickstein, senior retirement consultant in the Dallas office of Willis Towers Watson, told Bloomberg BNA. But sponsors would want to be careful to avoid the possibility of increased contributions and higher interest rates causing their plans to become overfunded, he said.

Kevin P. O'Brien, an attorney with Ivins, Phillips & Barker in Washington, told Bloomberg BNA that his firm has been grappling with the potential problem of rising interest rates. The firm has been discussing the idea of accelerating plan funding "with a number of companies," but it is considering how to also avoid tax penalties if interest rates rise and funding increases as a result, said O'Brien, who is a partner in the firm's employee benefits and executive compensation practice.

Companies that terminate plans that have surplus assets reverting to the sponsor will be hit with penalties under tax code Section 4980.

Another concern for sponsors that consider accelerating contributions is whether to fund those contributions from existing corporate assets or to issue debt. Delta Air Lines Inc., Verizon Communications Inc. and FedEx Corp. issued more than $14 billion in bonds this year in which some proceeds were used to bolster their retirement programs, according to data compiled by Bloomberg.

To contact the reporter on this story: David B. Brandolph in Washington at dbrandol@bna.com

To contact the editor responsible for this story: Jo-el J. Meyer at jmeyer@bna.com

ISSN 2161-8704