American Hospital Association

Pension Funding

Background

Current low interest rates are adversely affecting pension plan sponsors by inflating pension plan liabilities and funding obligations. For example, funding obligations for 2012 are projected to be almost four times the level of 2010, and 2013-2017 will be far worse, peaking at almost seven times 2010 levels by 2016. These enormous liabilities are severely affecting hospitals' ability to meet their day-to-day operating needs and to make necessary investments to meet the future needs of their communities.

A provision in the Senate's highway bill, the *Moving Ahead for Progress in the 21st Century Act* (S. 1813), addresses this issue effectively in the short-term by basing pension plan interest rates on historical averages. Specifically, in 2012, the interest rates determined under current law, which are based on the two-year average of interest rates, would be adjusted so that they are within 10 percent of the 25-year average of interest rates.

For example, assume that under current law, a pension interest rate for a year is 5.5 percent, based on an average of interest rates for the prior two years. Assume further that the 25-year average for that interest rate is 7 percent. In that case, the 10 percent corridor around the 25-year average would be from 6.3 percent to 7.7 percent. Since 5.5 percent is outside that corridor, the pension interest rate would be deemed to be 6.3 percent, the closest number within the corridor. This process adjusts aberrational interest rates so that they better reflect historical norms.

Under S. 1813, the 10 percent corridor is increased by 5 percent each year until it hits 30 percent for 2016 and subsequent years. For 2012 and 2013, this proposal effectively helps compensate for the artificiality of today's low rates. This proposal is estimated to raise almost $9.5 billion over 10 years. The bill has passed the Senate and awaits House action.

AHA View

The AHA supports requirements that ensure fully funded pension plans for hospitals' dedicated workforce, but under current economic conditions, it is imperative that some temporary relief from these requirements be granted if they are to be met in the long-term. To relieve hospitals of unrealistic and unnecessary cash obligations to their employee pension plans, the House should agree to the pension relief provisions of S. 1813