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## Rethinking Pension Surplus Dollars: Avoiding the Termination Trap



As rising interest rates have reshaped pension funding dynamics post-COVID, many corporate defined benefit (DB) plans are now experiencing significant surpluses. According to actuarial firm Milliman, the 100 largest corporate DB plans, in aggregate, held an estimated \$62 billion in excess assets as of December 2024.

Under existing tax law, defined contribution (DC) plan sponsors have limited options for using these surplus funds because, as a rule, accessing the excess assets requires terminating the plan. However, two new proposals from the American Benefits Council could offer an alternative path forward.

In letters sent to the chairs of the House Committee on Ways and Means and the Senate Committee on Finance, the council outlined legislative recommendations that would allow employers to repurpose pension surpluses without requiring them to terminate their DB plans.

### Unlocking Surplus Dollars from DB to DC Plans

The first proposal would permit companies to transfer excess assets from an overfunded DB plan into a DC plan, such as a 401(k), for the benefit of current employees. This would enable sponsors to keep the pension plan intact, while still making use of the surplus to help enhance employee retirement security in other ways.

### Support for Active Employee Health Coverage

The second proposal to the committees focuses on retiree health accounts. Under its recommendations, employers would be permitted to redirect the surplus assets in overfunded DB accounts toward funding health care benefits for their current, active employees.

Both proposals are seeking to modernize the rules governing surplus DB asset use while preserving the integrity of existing defined benefit plans. They would also help prevent what some policymakers might view as a “double dip” — repurposing surplus dollars into new benefit obligations while claiming a second tax deduction. The proposed changes would limit any future deductions on amounts already receiving favorable tax treatment, mitigating potential revenue loss to the federal government.



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## Implications for Plan Sponsors

If enacted, both of these provisions would provide sponsors with greater flexibility to optimize benefit offerings without dismantling well-funded pension plans. For many companies, this could mean retaining their DB plan structure while giving them more options to address their evolving workforce needs.

The proposals are in early stages and would require legislative action if they were to be enacted into law. Still, they reflect growing interest in revisiting pension policy to reflect today's funding realities as well as workforce and plan sponsor needs.

Source

<https://www.americanbenefitscouncil.org/pub/?id=ed02fe69-b2ef-6632-a9f6-84a8a70349c9>

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