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Impact of COVID-19 on your pension plan: Considerations for layoffs

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The 30% jump in unemployment nationwide, revealed on March 26, 2020, by state officials and the U.S. Department of Labor, was a startling realization of the damage the COVID-19 outbreak is inflicting on the economy.

As job losses rise, there are some economists predicting that the jobless rate could be higher than the 10% level of the global financial crisis, which ended in 2009.

As employers are facing the harsh reality of implementing layoffs to maintain economic viability, there may be unintended consequences to various retirement programs, especially pension, post-retirement benefits, and other plans. Plan sponsors may not have had the chance to fully consider how the swift actions taken by employers will affect such plans.

While there are numerous items for an employer to consider during this unprecedented time, the focus below is on items for plan sponsors to consider as they relate to pension plans, post-retirement benefits, and other plans following a reduction in force such as layoffs or furloughs. Plan sponsors should consider:

- Is the human resource staff equipped to handle issues related to significant layoffs, including a potential surge in retirement applications or distribution requests? Are there any nondiscrimination testing or age discrimination rules to consider?
- Consideration of severance benefits including pay, reimbursement of employee premiums for continuing group insurance, etc.
- Is the reduction in force involuntary or voluntary?
- “Plant closing” rules which are not limited to layoffs in which there are actual “closings”
- Determine if a 4062(e) event (a permanent cessation of operations at a facility resulting in more than 15% reduction of employees in a retirement plan) has occurred
- Consider implications of the Collective Bargaining Agreement when union employees are involved
- Determine if partial plan termination or Pension Benefit Guaranty Corporation (PBGC) reportable event has occurred. There may be other considerations depending on funding status of the plan.
- Determine if one-time accounting (curtailment, settlement, and/or termination benefits) treatment has been triggered
- Determine liability and potential accounting impact on post-retirement medical or other plans due to increases in retirements
- Stay informed with new developments around funding relief, including CARE Act provisions that may allow delay of 2020 cash contributions
- Consider funding waiver and other implications if not able to make a required contribution
- Determine if a surge in retirement distributions could result in higher required contributions to a plan due to liquidity requirements
- Determine if benefit distributions could be restricted due to company bankruptcy
- Consider whether any company actions trigger distributions under supplemental executive retirement plans (SERPs)

The considerations and/or requirements are numerous, complex, sometimes conflicting, and often contain harsh penalties for non-compliance.

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