



Article published by the NonProfit Times - <http://www.nptimes.com/09Nov/news-091102-1.html>

November 2, 2009

Relief Coming For Nonprofit Pension Plans

By Mark Hrywna

Legislation introduced in Congress could provide temporary relief for nonprofits faced with huge increases in pension contributions in the coming years.

Rep. Earl Pomeroy (D-N.D.) and Rep. Patrick J. Tiberi (R-Ohio) introduced the measure. The bill will either be taken up by the U.S. Senate directly on the floor or it will go through the Health, Education, Labor and Pensions Committee, according to Patricia Read, senior vice president, public policy at Independent Sector (IS).

"This was a problem that came up with the 2006 Pension Protection Act (PPA), when they did not foresee the consequences of economic downturn," Read said.

"Not all nonprofits are affected by this but for the ones that are, it's a terrible problem," said Diana Aviv, CEO of the Washington, D.C.-based coalition of nonprofits.

Nonprofits that offer defined benefit pension plans have daunting budget challenges as they face huge increases in their required, minimum pension payments. It depends on what calendar year nonprofits operate on and what their defined benefit pension, Read said.

"This is really about not relieving them of their obligations but giving them a longer period of time in which to make those funds whole again," Read said.

Under the bill, employers could make amortization payments over nine years instead of the required seven, and make interest-only payments in the first two years. They also could choose to make level payments for a 15-year period.

Aviv rattled off just a few examples of nonprofits that would be affected if some type of relief is not granted:

- Family Service of Greater Boston saw funding status fall from 94 percent to 72 percent in one day due to a market decline in 2008, and now it's underfunded by \$2 million.
- Detroit Symphony Orchestra's defined benefit assets declined 23 percent between April 2008 to April 2009, increasing the cost of the plan by almost \$1.5 million, a 215-percent increase over the prior year.
- One nonprofit in the Midwest estimates its annual contributions will increase by six to eight times what it was the previous year.

"The problem is that this comes at exactly the time when folks aren't having an easier time of raising money as they might have had in the past, so there is the double whammy," Aviv said. Although "predicting anything with certainty one does at one's own peril...there is sympathy for this for resolution," she said. "We're not seeing obstacles and barriers that would suggest this is going to be a big fight. All things being equal, we are hopeful that this will be resolved," Aviv added.

Many nonprofits, from local United Ways to human service agencies, sponsor defined benefit plans, Aviv said. Up to 13 percent of all colleges and universities have defined benefit plans for some or all of their employees and 80 percent of public institutions of higher education sponsor defined benefit plans, as do a number of large, long-standing foundations.

“The PPA was designed to make sure that companies paid an adequate amount into their pensions but I don’t think any of the designers anticipated the dramatic decline in the market to the extent that we’ve had,” said Michael Watson, senior vice president, human resources and diversity, for Girl Scouts of America in New York City.

The legislation is now creating the opposite of what was intended, with fewer people in the sector covered. It’s causing organizations to “come up with so much money in such a compressed period of time that they may have to face choices of freezing plans, laying off employees or cutting program expenses. I don’t think they were thinking of nonprofits when they wrote it,” Watson said.

Girl Scouts is considering an increase in minimum pension payments from 3.8 percent of payroll (a \$9 million payment in 2009) to 9 or 10 percent of payroll next year. In 2011, the projection is 25 percent of payroll -- a whopping \$58 million.

“Since you have to fund the plan at a minimum requirement, if it’s an increase, we would have to cut back on something else to make that funding,” said Girl Scouts Chief Financial Officer (CFO) Florence Corsello. “We don’t have elasticity in our budget unfortunately,” she said.

A long-term horizon allowed a more predictable average instead of the more variable peaks and valleys as a result of shifting to more current interest rates, Corsello said. Using low-interest rates to value liability increases liability and limiting the choices by actuaries, she said. The decline in the market has significantly driven down asset values, creating a situation where assets have fallen and liabilities, because of using lower interest rates, have increased. Losses in asset value can be taken in over a much smaller window, she said.

“Pension plans are really just long-term liabilities. What you’re doing is funding retirement income of employees over their working lives,” said Corsello. “When you have a long-term perspective, you have a much greater chance of having your funded status of your pension plan come up over the working lives of your employees. Now assumptions are on a much shorter timeframe,” she said.

Lutheran Child and Family Service of Michigan already froze its pension plan after taking a hit in the financial markets. “We would love to have some pension benefit for our people, but we couldn’t keep putting money in, and have the market taking it away, because then we couldn’t come up with the required minimum,” said CEO Bob Miles.

Headquartered in Bay City, about 120 miles north of Detroit, the organization is in the second year of salary freezes and laid off about 100 employees after closing some services. It’s running a year-to-date deficit of \$700,000 and next year’s pension payments are projected to be \$1.2 million. That’s a fairly significant amount for a \$21-million operation, Miles said.

“We’re having to divert money that we otherwise would be able to put to staff increases or other costs,” he said.

This article is from NPT Weekly, a publication of The NonProfit Times.

[Subscribe to The NPT Weekly eNewsletter](#) or any of our other newsletters and get the latest news and ideas related to fundraising delivered to your inbox