

March 2020

COVID-19 and its Implications for Pension and OPEB Accounting

Earlier this week, Bolton Investment released a March 2020 Alert focused on the implications of COVID-19 on portfolios. This Alert from Bolton Retirement discusses the impact of COVID-19 on pension and OPEB accounting liabilities.

Companies and associations who sponsor pension and OPEB plans disclose plan liabilities measured with a discount rate based on yields for high quality corporate bonds. Many governments who sponsor OPEB plans and some who sponsor pension plans disclose plan liabilities measured with a discount rate based on municipal bond yields. All of these bond rates have recently decreased substantially.

The following chart compares the historic 20 year rates for Treasuries, Municipal AA, and Corporate AA bonds. We show the June 30 rates since 2017, monthly rates since June 30, 2019, and weekly rates in February.

20 Year Bond Rates			
Date	Treasury	Municipal Gov AA	Corporate AA
6/30/2017	2.60%	3.56%	3.86%
6/30/2018	2.91%	3.62%	4.21%
6/30/2019	2.31%	3.13%	3.53%
7/31/2019	2.31%	3.09%	3.41%
8/31/2019	1.79%	2.63%	3.01%
9/30/2019	1.94%	2.75%	3.14%
10/31/2019	2.01%	2.85%	3.14%
11/30/2019	2.08%	2.91%	3.13%
12/31/2019	2.24%	2.75%	3.19%
1/31/2020	1.84%	2.32%	2.89%
2/7/2020	1.87%	2.31%	2.89%
2/14/2020	1.88%	2.10%	2.86%
2/21/2020	1.75%	2.07%	2.77%
2/28/2020	1.47%	1.81%	2.72%

Since December, Corporate bond yields decreased substantially, but the decrease in the yield rates were more pronounced for Municipal bonds.

Many governments have a June 30 fiscal year end. The June 30, 2019 municipal rate was low at 3.13%, a decrease of 49 basis points from the June 30, 2018 rate of 3.62%. For many OPEB plans, the 49 basis point decrease in the municipal bond rate increased OPEB liabilities on their June 30, 2019 financial statements substantially. Liabilities of OPEB Plans that provide generous Medicare supplemental coverage increased by as much as 10% or more.

As it stands now, the most recent municipal bond rate has decreased since June 30, 2019 by 132 basis points from 3.13% to 1.81%. If rates do not rebound before the end of the fiscal year, the rate decrease could increase governments' OPEB liabilities substantially when they prepare their June 30, 2020 financial statements. The increase could be by as much as 30% or more for less mature governments who provide Medicare supplemental benefits. The increases will be smaller for fixed dollar benefit plans or for plans with no benefit after Medicare eligibility.

COVID-19 and its Implications for Pension and OPEB Accounting

Many private sector or association plan pension and OPEB plan sponsors with calendar fiscal years saw decreases in year-end discount rates of around 100 basis points from December 31, 2018 to December 31, 2019. As it stands now, they could see another decrease of around 50 basis points in their FYE 2020 disclosures.

The increase in liabilities may increase the visibility of plan cost and place more pressure on plan sponsors to address the situation where possible.

Plan sponsors can take action:

- Educate stakeholders about the likely impact on balance sheet and cash flow
- Review bond covenants and other debt instruments to determine any effects
- Update investment and liability management plans to take into account the new levels

If you have any questions on how low bond rates could affect your pension and OPEB accounting, please contact Kevin Binder at 443-573-3906, Kari Szabo at 443-573-3919, or Tom Vicente at 443-573-3918.