



CLIENT ACTION Bulletin

Employee Benefits

New Law Hikes PBGC Premiums for Single-Employer Pension Plans

SUMMARY Congress has approved and sent to the President a federal budget agreement that includes an increase in the annual premiums that sponsors of single-employer defined benefit plans pay to the Pension Benefit Guaranty Corporation (PBGC) to insure the plans in the event of a plan termination. The budget agreement, which the President will sign, includes no changes to the PBGC premiums for multiemployer pension plans. The budget accord’s PBGC provisions are effective for plan years beginning after Dec. 31, 2013.

DISCUSSION **PBGC Insurance Premium Increases for Single-Employer Plans Only**

The increases in PBGC premiums are in addition to the increases that were part of the 2012 Moving Ahead for Progress in the 21st Century Act (“MAP-21”).

Under the agreement:

- the flat-rate premium will increase to \$57 per participant for plan year 2015 and to \$64 per participant for plan year 2016, and then those amounts are adjusted in subsequent years based on the growth in the national wage index for Social Security (for plan year 2014, the flat-rate premium of \$49 per participant that was approved under MAP-21 will not change);
- the variable-rate premium will increase by \$10 per \$1,000 of unfunded vested benefits in plan year 2015 and an additional \$5 per \$1,000 of underfunding in plan year 2016, and then those amounts also are adjusted in subsequent years based on the Social Security national wage index (for plan year 2014, the \$14 per \$1,000 of underfunding that was approved under MAP-21 will not change); and
- the cap on the variable-rate premium will be set at \$500 times the number of participants for plan year 2016 and later, with adjustments also based on the growth in the Social Security national wage index (for plan year 2014, the cap is \$412 times the number of participants).

The following table shows the premium rates that MAP-21 had called for, along with the new law’s premiums:

Year	MAP-21 Rate		Budget Accord	
	Flat-Rate Premium	Variable-Rate Premium	Flat-Rate Premium	Variable-Rate Premium
2014	\$49	\$14	\$49	\$14
2015	\$49*	\$19*	\$57	\$24*
2016	\$49*	\$19*	\$64	\$29*

*Subject to indexing based on the Social Security national wage index

Illustration of Premium Increase

For a sample plan with 1,000 participants and \$10,000,000 of unfunded vested benefits in 2015, the PBGC premium rate change will increase premiums by about \$58,000 (from \$229,000 to \$287,000). If there were no change in participant count or unfunded vested benefits in 2016 for the same sample plan, a plan sponsor will face a PBGC premium increase of about \$115,000 (from \$229,000 to \$344,000), as shown in the table below:

	MAP-21	Budget Accord	Increase
2015			
Flat-Rate Premium	\$49,000	\$57,000	
Variable-Rate Premium	\$190,000	\$240,000	
Total Premiums	\$239,000	\$297,000	\$58,000
2016			
Flat-Rate Premium	\$49,000	\$64,000	
Variable-Rate Premium	\$190,000	\$290,000	
Total Premiums	\$239,000	\$354,000	\$115,000

ACTION

Employers that sponsor single-employer defined benefit plans should review the new law for its effect on the pension plans' contribution and investment policies. Taking steps to achieve a 100% funding level by the 2015 plan year will avoid having to pay PBGC variable-rate premiums. Adopting an investment policy that is designed to maintain a 100% funding ratio once that level is achieved will also be prudent. Plan sponsors also should take steps to ensure that their participant count is accurate to avoid paying flat-rate premiums for employees who are nonparticipants: consider, for example, if there has been a merger, acquisition, spin-off, or other corporate transaction that might have affected the participant count, or whether certain employment-terminated workers remain in the participant count.

For additional information about the budget accord's effect on PBGC premiums for single-employer pension plans, please contact your Milliman consultant.