NRLN Perspective on PBGC Premium Increase

You may have read and/or heard news reports about the U.S. House and Senate passing a two-year bipartisan budget deal and sending it to President Obama who is expected to sign the legislation. Depending on your source for news you may or may not be aware that the bill included a provision to raise the premiums that corporate pension plan sponsors pay to the Pension Benefits Guaranty Corporation (PBGC).

The PBGC's flat-rate premium for each plan participant, which is paid by all plan sponsors, will rise from $42 in 2013, to $49 in 2014 (under the 2012 law) and then rise again in 2015 to $57 per plan participant and to $64 in 2016 under the new budget proposal. In addition, the variable rate premium, which is paid by employers for every $1,000 of plan underfunding would increase from $9 today to $14 in 2014 and under the new proposal to $24 in 2015 and to $29 in 2016.

An Associated Press article reported this statement from Scott Macey, president of the ERISA Industry Committee, a group that represents large employers on benefits issues. "It only provides another reason for sponsors to exit the system, thus further harming retirement security and the participants the system is intended to help."

The NRLN is always alarmed when legislation could prompt pension plan sponsors to take a negative action on its pension plan such as de-risking, including voluntary plan terminations which could deprive pension plan participants the protections of ERISA and the PBGC safety net.

The NRLN wanted Congress to take action on the position we have been advocating. That is, to **require the PBGC to use the same corporate bond yield curve and other assumptions as plan sponsors for the purpose of allocating plan assets to pay non-guaranteed benefits.** Instead, the PBGC's lower interest discount rate overstates PBGC liabilities and thus the need for higher premiums cited above.

The bottom line is that if the PBGC used the same discount rate that companies are compelled to use by law, PBGC liabilities would be as much as 30% lower, company premiums could be lower and companies would not feel so compelled to discontinue support for defined benefit pension plans that are far superior to 401k or other plans that have proven to fail the majority of retirees.

Since we asked you to the follow up on past Action Alerts by writing your members of Congress on this issue, e thought you should know it was a part of the budget proposal. And we want you to further understand why we will continue to oppose this dual rate scenario and PBGC's use of below market interest rates that polarize companies and create risks to the continuance of retiree defined pension plans.

The NRLN will continue to work on building a coalition that supports our position to require the PBGC to use a more realistic interest rate when calculating benefits owed to pension plan participants after it takes over their pension plan.

We will also continue to advocate protections for retirees in pension plan de-risking situations and for more transparency in the information that is provided in the Annual Funding Notice. Watch for future Action Alerts.

Bill Kadereit, President
National Retiree Legislative Network