AMERICAN BENEFITS COUNCIL

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Concerns Regarding the PBGC Premium Study In the Family Savings Act of 2018

Section 203 of the Family Savings Act of 2018 directs the Pension Benefit Guaranty Corporation ("PBGC") to contract with an appropriate agency or organization to study certain issues regarding single employer plan premiums payable to the PBGC. We urge you to drop this proposal from the bill. This study is counterproductive and sends the wrong message to existing plan sponsors of healthy plans.

There are four main elements of the study under the bill: (1) a study of whether premiums are high enough, (2) a study of whether factors like credit worthiness and investments should be considered, (3) a study of how to report PBGC's financial condition, and (4) a study of Cooperative and Small Employer Charity (CSEC) plans.

Study Regarding Level of PBGC Premiums

The study provision implies increasing premiums.

The study would "examine the current structure and level of premiums required to be paid by single employer plans . . . to evaluate whether such premiums *are sufficient* for the [PBGC] to pay the benefits guaranteed by the [PBGC]." [Emphasis added.]

PBGC's single employer system has a substantial projected surplus using conservative assumptions. According to its most recent projection report PBGC itself is projecting having a surplus of more than $20 billion by 2027, even using its very conservative assumptions.

And PBGC's projection of a $20 billion surplus does not take into account a huge asset of PBGC's: the right to receive annual premiums, which were almost $7 billion last year. In other words, PBGC has a right to income, like bond income, of billions of dollars of year, and values that right at zero dollars. If that right were valued, as it would be in the private sector, PBGC's surplus would be enormous.

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The threat of further increases in PBGC premiums will hurt the PBGC and plan participants. The added costs and unpredictability of multiple increases in recent years have compelled many pension plan sponsors to pursue strategies to reduce their exposure, including stopping the voluntary sponsorship of their defined benefit plan and exiting the pension system altogether. The negative impact of recent premium increases is illustrated in the most recent report from the PBGC's Participant and Plan Sponsor Advocate, which referenced a study that found:

> *When considering what can be done to stem the growing de-risking tide, levels of PBGC premiums are undeniably a key factor. This study has found that reducing PBGC premium levels or stemming their rapid growth is likely to decrease de-risking activity, specifically risk transfer ... A reduction in future PBGC premiums would have a significant beneficial impact on preserving the remaining plans in the defined benefit pension universe.*

STUDY REGARDING ALTERNATIVE WAYS TO STRUCTURE PBGC PREMIUMS

The study provision re-raises issues rejected by Congress.

Under the bill, the study shall "evaluate whether there are alternative structures and levels of premiums that would better account for the risks posed by various categories of single employer plans, including on the basis of . . . risk or volatility of plan investments, or credit worthiness of the plan sponsor."

Congress previously rejected these types of alternatives. The concerns raised about them are still valid today.

- **Inappropriate for government to review investments and company credit worthiness** One of the reasons these approaches have been rejected in the past is the inappropriateness and unworkability of the Federal government rating public and private companies, including charities, and their investment policies.

- **Counterproductive to hurt struggling companies** Congress has repeatedly rejected these approaches because they would lead to far greater burdens on the companies least able to afford those burdens. This would certainly trigger more company insolvencies, thus increasing PBGC's liabilities not reducing them.

- **Counterproductive to accelerate exodus from the pension system, eroding PBGC's premium base** Strong companies that want to stay in the system have noted that the pro-cyclical effects of credit worthiness tests will cause more plan sponsors to exit the system. That would mean that fewer companies would be responsible for paying for PBGC liabilities, thus increasing the burden for those companies and seriously eroding PBGC's premium base.

STUDY REGARDING HOW TO REPORT PBGC ASSETS AND LIABILITIES

The study overlooks core issues.

The PBGC's reported deficit would be substantially lower if it used various assumptions that private-sector employers are required by law to use in determining the funded status of the pension plans they sponsor. Under the bill, the study would "evaluate whether other methods of estimating the value of assets and liabilities should be used in the financial statements of the [PBGC]." The study cites two studies as references but omits using the valuation rules established by Congress for private companies. Significant numbers of current House of Representatives members have expressed support for legislation that would address this issue.

It should be noted that a significant reason for the repeated premium increases in recent years is that federal budget rules inappropriately permit premium revenue to be counted in offsetting government spending that is wholly unrelated to the pension system, even though the premiums may only legally be used by the PBGC. Consequently, raising PBGC premiums has become a frequent "pay-for" for other unrelated federal spending. This issue is entirely overlooked in the provision of the bill requiring a study.

STUDY OF CSEC PLANS

Congress already changed the applicable funding rules of CSEC plans in 2014.

Under the bill, the study would "evaluate whether multiple employer plans in general, and multiple employer plans that are CSEC plans (as defined in section 414(y) of the Internal Revenue Code of 1986) in particular, have characteristics that warrant a separate structure and level of premiums." CSEC plans are plans maintained by multiple charities or cooperatives. By law, it is a closed group of approximately 30 plans. In 2014, Congress enacted funding legislation that recognized that pension plans serving CSEC plan sponsors pose very little risk to the PBGC. Legislation supporting a change in premium levels to conform to the funding change is widely supported by House and Senate members.