



AMERICAN BENEFITS COUNCIL

PENSION BENEFIT GUARANTY CORPORATION PREMIUMS FOR SINGLE-EMPLOYER PENSION PLANS THE ADMINISTRATION'S 2020 BUDGET PROPOSAL

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BACKGROUND

The Pension Benefit Guaranty Corporation (PBGC) is an agency within the federal government that insures private sector single-employer pension plans against bankruptcy. The agency also maintains a separate system that insures multiemployer plans against insolvency, but this paper addresses the single-employer insurance system only.

The PBGC receives no federal funds, but is funded through premiums it charges for insurance. The premiums for the single-employer system is a two-tiered premium consisting of a flat rate premium of \$80 per participant and a variable-rate premium (VRP) that is based on the funded status of the plan. The VRP is \$43 per \$1000 of underfunding and is capped at \$541, per participant, per plan. Both the flat rate premium and the VRP are also indexed to wages.

FUNDED STATUS OF THE PBGC'S SINGLE-EMPLOYER INSURANCE SYSTEM

Currently, the PBGC's single-employer insurance system is overfunded by \$2.4 billion. The total assets in the single-employer trust fund total \$109.9 billion with \$107.5 billion in liabilities. In FY 2018, the PBGC paid out \$5.8 billion to participants in its single-employer insurance system and it took in \$5.8 billion in premiums for the same time period, so all benefits could be paid out without the use of either current assets or the earnings thereon. In addition, in a projections report issued last May, PBGC projected that the single employer plan program is likely to have a surplus of \$20.1 billion in today's dollars by 2027.

THE U.S. GOVERNMENT'S FY 2020 BUDGET PROPOSAL AND THE PBGC

The Administration's FY 2020 budget proposes to freeze indexation for one year. However, it would lift the cap on the VRP from the current law \$541 and

almost double it to \$900. The justification for this, according to the Analytical Perspectives is that the VRP premium rate has increased over time, but it has occurred “without a corresponding increase in the cap” and this has resulted in more plans being very underfunded. That is not correct.

The VRP rate has increased over time, but the cap has increased as well through inflation indexing. The cap was first set at \$400 in 2013 and has ticked upwards every year since then, increasing (by year starting in 2014) to \$412, \$418, \$500, \$517, \$523 and now \$541. In fact, the VRP is indexed in a way that escalates and can ultimately be greater than the underfunding of the plan.

IMPLICATIONS FOR HIGH VARIABLE-RATE PREMIUMS

Single-employer pension plans have no incentive to underfund. Funding rules for these plans were tightened *dramatically* in the 2006 Pension Protection Act (PPA). At no time since then have plans been inclined to become worse-funded because the rules imposed on a poorly funded plan are so onerous. For example, the funding rules impose additional burdens on less well-funded plans, and restrictions are placed on underfunded plans paying out lump sum benefits to participants, increasing benefits, or even accruing any new benefits. While the VRP discourages underfunding, according to a report from the PBGC’s Office of the Participant and Plan Sponsor Advocate, premiums that are too high also have the effect of encouraging plan sponsors to completely de-risk their plan and exit the pension system entirely. Over the long-term, such high premiums could easily result in adverse selection and shrink the PBGC’s premium base rather than making the system stronger.