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Year-End Budget Act Includes PBGC Premium Increases for 2015 and 2016

By Jon Karelitz

On December 26, 2013, President Obama signed into law the Bipartisan Budget Act of 2013 ("Budget Act"), which increases PBGC premiums for single employer defined benefit plans for 2015 and 2016.

Each year, single employer defined benefit plans must pay flat-rate premiums (calculated on a "per participant" basis) and, if the plan is not fully funded, variable-rate premiums (calculated per $1,000 of unfunded vested benefits ("UVBs")). Both types of premiums were previously increased for 2012 through 2014 by the Moving Ahead for Progress in the 21st Century Act ("MAP-21 Act"). The MAP-21 Act indexed the PBGC flat-rate premiums for inflation after 2014. The MAP-21 Act also provided that PBGC variable-rate premiums would increase by an additional $5 per $1,000 of UVBs in 2015 (in addition to annual increases for inflation that began in 2013), with the cap of $412 per participant carried over from 2014.

The Budget Act now increases flat-rate premiums from $49 per participant in 2014 to $57 per participant in 2015, to $64 per participant in 2016, and indexed for inflation thereafter. The Budget Act also increases variable-rate premiums by an additional $5 per $1,000 of UVBs in 2016 (with potential additional annual increases for inflation beginning in 2017), and increases the variable-rate premium cap to $500 per participant.

PBGC premiums can be a sizeable ongoing expense cost for defined benefit plans. For older plans, a significant portion of the annual flat-rate premiums may be attributable to participants who are no longer actively employed. Consequently, defined benefit plan sponsors may want to consider approaches for reducing the number of participants in the plan, which will also reduce the plan's annual flat-rate premium obligations. Available approaches include:

- Establishing a one-time or permanent window for terminated vested participants to an elect an immediate lump sum payment; and/or
- Purchasing a fully guaranteed non-participating annuity to satisfy a portion of the plan's liabilities (*e.g.*, retirees and/or terminated vested participants).

Either approach described above reduces the number of plan participants and the annual flat-rate PBGC premiums.

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