Increased premiums on the horizon for defined benefit pension plans

John M. Wirtshafter | Tuesday, November 3, 2015

On Monday, President Barack Obama signed into law The Bipartisan Budget Act of 2015 (BBA). The BBA will result in a significant increase in the premiums paid by defined benefit pension plans covered by the Pension Benefit Guaranty Corporation (PBGC).

Prior to some last minute haggling last week, the proposed budget being discussed already provided for an increase in the PBGC premium rates. However, lobbyists for the farming and agriculture industry were able to negotiate the removal of a cap on the amount of insurance provided for crop insurance, requiring revenue to be raised somewhere else. Under the adage of “our lobbyists are better than yours,” the additional revenue came on the backs of defined benefit plan sponsors by means of an additional increase in the PBGC premium rates.

The following chart, prepared by the American Benefits Council, shows the new PBGC flat rate and variable rate premiums as they were, as previously proposed as of the beginning of last week, and as ultimately provided for in the law that was just enacted.

	Current law	Under H.R. 1314 discussion draft	Under H.R. 1314 as amended
Flat rate premium	$64 per person in 2016 adjusted for inflation annually	$68 per person in 2017 $73 per person in 2018 $78 per person in 2019 Indexed for inflation thereafter	$69 per person in 2017 $74 per person in 2018 $80 per person in 2019 Indexed for inflation thereafter
Variable rate premium	$30 per $1,000 of underfunding in 2016 adjusted for inflation annually	Continues to be adjusted for inflation, with the following additions: Adds $2 to indexed rate in 2017 Adds $3 to indexed rate in 2018 Adds $3 to indexed rate in 2019	Continues to be adjusted for inflation, with the following additions: Adds $3 to indexed rate in 2017 Adds $4 to indexed rate in 2018 Adds $4 to indexed rate in 2019

What will this mean for defined benefit plan sponsors?

The increase in PBGC premium rates provides additional incentive to freeze and/or terminate defined benefit pension plans, implement de-risking and other cash-out strategies, and to consider other creative opportunities to reduce or eliminate underfunding in such plans.

If you or your company sponsors a defined benefit pension plan, this may be a good time to review the status of the plan and the options available to you to combat the impact of the increase in PBGC premiums.

For more information, please contact the attorney listed below.

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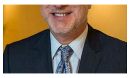 Team member bio