

# ***PBGC premiums to increase under budget act***

*December 19, 2013*

## ***In brief***

Premiums paid to the Pension Benefit Guaranty Corporation (PBGC) by defined benefit plans will increase as a result of the Bipartisan Budget Act of 2013 (Act) passed by the Senate last night. President Obama is expected to sign the legislation by the end of the year.

## ***In detail***

### ***Background***

Single-employer defined benefit pension plans must pay annual premiums to the PBGC to cover the cost of plan termination insurance. A flat-rate premium is assessed per participant in the plan, and variable-rate premiums are assessed based on the plan's funded status.

PBGC premiums were increased last year under the Moving Ahead for Progress in the 21<sup>st</sup> Century Act of 2012 (MAP-21). The flat-rate premium under MAP-21 is scheduled to increase from \$42 in 2013 to \$49 in 2014, and was to be indexed to inflation thereafter. MAP-21 also increased variable-rate premiums from \$9 per \$1,000 of unfunded vested benefits to \$14 in 2014 and at least \$19 in 2015 (due to a combination of a

\$5 statutory increase and inflation). MAP-21 added a per-participant cap on variable-rate premiums of \$400 per participant for 2013, indexed for inflation thereafter (set to increase to \$412 for 2014).

### ***New premiums and changes to federal pension benefits***

The Act raises the flat-rate per-participant premium for single employers to \$57 for 2015 plan years and to \$64 for 2016. Flat-rate premiums will be indexed to the growth in wages thereafter. The Act increases variable-rate premiums by \$10 (instead of \$5) for 2015 and by another \$5 for 2016, and increases the per-participant cap for 2016 to \$500. These amounts will begin to be indexed in the following year.

The Act also makes some changes to federal pension

benefits, requiring additional contributions from employees hired after December 31, 2013, and modifying cost-of-living adjustments for certain military retirees. Although many benefits provisions have been discussed this year, no changes to the Affordable Care Act or other pension or benefit provisions were included.

The pension insurance premium provisions are projected to save taxpayers \$7.9bn over 10 years, and are designed to help close the PBGC's \$27.4bn deficit in its single-employer program for 2013.

The following chart illustrates the new PBGC premium rates as revised by the Act:

Year	Per participant flat-rate premium	Variable-rate premium Per \$1,000 of unfunded vested benefits	Per-participant cap on variable-rate premium
2013	\$42	\$9 per \$1000	\$400
2014	\$49	\$14 per \$1000 (statutory amount plus increase in average wage index)	\$412
2015	\$57	At least \$24 per \$1000 (2014 rate plus \$10 and increase in average wage index)	\$412 indexed (approx. \$425)
2016	\$64	At least \$29 per \$1000 (2015 rate plus \$5 and increase in average wage index)	\$500 (as indexed)

## Let's talk

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