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Defined Benefit Plans

House Approves Budget Agreement That Includes Hikes in PBGC Premiums

Defined benefit plan pension insurance premiums would be increased by Congress for the second time in less than two years under a new budget compromise reached by the heads of the House and Senate Budget committees, with the premium provisions projected to cut federal spending by nearly $8 billion over 10 years.

The House Dec. 12 easily passed the deal, which would cut the deficit by $21.8 billion over 10 years and partially scrap two years' worth of across-the-board spending cuts agreed to in 2011, sending the plan to the Senate.

The vote was 332-94, with 169 Republicans and 163 Democrats supporting the legislation. Most of the opposition came from Republicans, with 62 voting against the measure, along with 32 Democrats. The deal was one of two amendments to H.J. Res. 59, the continuing resolution that sparked the October government shutdown.

The Senate is expected to take the issue up during the Dec. 16 week, but the timing of consideration may be affected by the ongoing dispute over presidential nominations in the chamber. Should that dispute be resolved, it could speed up consideration of the deal. With the House expected to hold no more votes until 2014, the Senate cannot reject or modify the carefully crafted package without causing major headaches.

The deal would hike the flat-rate per-participant premium for single employers to $57 for plan year 2015 and to $64 for plan year 2016, according to a congressional section-by-section analysis of the legislation on the fiscal year 2014 and 2015 budgets. Flat-rate premiums would then be indexed to the growth in wages thereafter.

Variable-rate premiums would increase by $5 per $1,000 of unfunded vested benefits in plan year 2015 and an additional $5 in plan year 2016. Variable-rate premiums would also be indexed to increases in wages thereafter. They would be capped at $500 per participant for plan years beginning after 2015.

''Taxpayers shouldn't have to bail out private companies' pension benefits. That's why we ask private companies to cover more of the cost of guaranteeing their pension benefits. That would protect taxpayers and save $7.9 billion'' over 10 years, the House Budget Committee said in a release on the agreement's spending cuts.

Overall, the agreement, announced Dec. 10 by Rep. Paul Ryan (R-Wis.), chairman of the House Budget Committee, and Patty Murray (D-Wash.), chairman of the Senate Budget Committee, includes dozens of deficit-reduction provisions, with mandatory savings and nontax revenue totaling about $85 billion from 2014 to 2023. The agreement would decrease cuts from sequestration by $63.2 billion in fiscal years 2014 and 2015, resulting in a projected $21.8 billion in deficit reduction.

Premium Hikes 'Unacceptable.' Retirement-related trade groups disagreed with the PBGC premium portion of the deal and called the rate hikes ''unacceptable.''

''It is simply unacceptable that Members of Congress of both parties, as well as both Democratic and Republican administrations in recent years view pension plans as a piggy bank for other budget priorities, without regard for the real-life policy implications of their actions,'' American Benefits Council President James A. Klein said in a Dec. 11 statement.

Congress previously increased premiums in 2012 in the Moving Ahead for Progress in the 21st Century Act (MAP-21). Under that law, the flat-rate premium increases to $49 per participant in 2014 and would have been indexed to inflation thereafter.

Variable-rate premiums were $9 in 2011, and MAP-21 indexed them to inflation thereafter, adding on top of that increases of $4 in 2014 and $5 in 2015. As a result, the premium will be $14 in 2014. MAP-21 capped premiums at $400 per participant, with that amount inflation-indexed starting in 2014.

The budget agreement didn't address multiemployer plan premium contributions.

Under the new budget proposal, the premium provisions would be effective for plan years beginning after Dec. 31, 2013.

The budget also included provisions increasing federal-employee pension contributions and modifications to the annual cost-of-living adjustments for military retirees under age 62 (see related article in this issue).

PBGC Financial Position. The ERISA Industry Committee said in a Dec. 11 news release that it is ''adamantly opposed'' to the PBGC premium increases.

The increases would ''only further accelerate the demise of the pension system, as plan sponsors become increasingly discouraged from voluntarily providing pensions,'' Scott Macey, president and chief executive officer of ERIC, said in the news release.

''Moreover, this increase does not even consider that, even using the PBGC's own numbers in its latest annual report, the agency's so-called pension funding deficit for single employer plans actually went down this past year,'' Macey said.

The PBGC's annual report, released Nov. 15, stated that the agency's deficit for its single-employer program decreased to $27.4 billion, from $29.1 billion in 2012 (222 PBD, 11/18/13; 40 BPR 2654, 11/19/13).

A PBGC spokeswoman said the agency had no comment on the premium increases.

ERIC and other business trade groups argued that the PBGC's financial position is stronger than it said in its recent annual report.

''The PBGC's so-called deficit is artificially high due to the low interest rates that are used to calculate the agency's liabilities,'' the ERIC news release said.

The American Benefits Council, in a Dec. 11 news release, echoed ERIC's criticism, stating that the deficit ''is based on both today's historically low interest rates and flawed assumptions by the PBGC in the way it determines its financial situation.''

An ABC statement released Dec. 10 went further, calling the PBGC's assessment of its financial position a ''myth.'' The ABC said in that statement that, based ''on current figures and assuming a mere 3% cumulative rate of return on assets, PBGC will be able to permanently pay claims out of income, without ever using any existing assets.''

Nancy Hwa, Pension Rights Center communications director, told Bloomberg BNA that PBGC premium increases shouldn't be decided as part of a budget deal.

''Congress should not use this issue—or similar ones, such as Social Security and tax breaks for retirement plans—to balance the budget. Such matters should be discussed and decided only in the context of protecting Americans' retirement security,'' she said.

''Like the plans that it insures, the PBGC's obligations are over the long term, and funding levels can fluctuate, depending on larger forces in the economy, such as interest rates and the stock market. So we think that raising premiums in single-employer plans should be based on need, not as an accounting gimmick to supposedly address the deficit. There needs to be the right balance between ensuring that the PBGC is funded fairly and sufficiently, and keeping employers in the DB system,'' Hwa said.

Unappealing Choices. A concern about higher premiums is that they will ''hasten the demise'' of the defined benefit plan system, Olivia S. Mitchell, executive director of the Pension Research Council at the University of Pennsylvania's Wharton School, told Bloomberg BNA.

Many companies with defined benefit plans are either freezing or terminating them.

Mitchell said that the PBGC might be solvent for another 10 to 12 years, but that's not very long in a retiree's life span. While many tweaks could be made to fix the PBGC's deficit problem, ''none are very appealing,'' she said.

Mitchell also said that she has been working on Social Security for more than 30 years, seeking solutions to fixing that program. Fixing company pensions is even more difficult, she said, because ''there's not as much solidarity to keep this thing going.''

By Sean Forbes

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A section-by-section analysis of the deal is at http://budget.house.gov/uploadedfiles/bba_section-by-section_analysis_.pdf. The House Budget Committee release on the agreement's spending cuts is at http://op.bna.com/pen.nsf/r?Open=pkun-9eatg6. The legislative text is at http://op.bna.com/pen.nsf/r?Open=pkun-9easqq. More information on the agreement is at http://budget.house.gov/the-bipartisan-budget-act-of-2013/.

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