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PBGC legislation could cut toll on employers

But change faces tough time getting passed

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Legislation that would end a widely reviled budget-balancing “gimmick” of increasing the premiums employers must pay to the Pension Benefit Guaranty Corp. faces a difficult but not insurmountable battle.

The bipartisan legislation introduced earlier this month by Rep. Jim Renacci, R-Ohio, with two Republicans and three Democrats as co-sponsors, would repeal part of a 1980 law that allows PBGC premiums to be counted as general revenue when it comes to balancing the federal budget.

The premiums, however, are used exclusively to help the PBGC pay pension benefits in plans it has taken over from employers who get in financial trouble or go out of business.

Business groups are optimistic that an educational campaign will convince Congress to eventually approve H.R. 4955, the Pension and Budget Integrity Act of 2016, to stop the premium hikes.

“When lawmakers have all the facts and are educated, this can be done,” said Lynn Dudley, senior vice president of global retirement and compensation policy at the American Benefits Council in Washington.

“We think the environment is ripe for Congress to advance the legislation,” said Annette Guarisco Fildes, president and CEO of the Washington-based ERISA Industry Committee.

Business groups say the budget-balancing gimmick has led lawmakers in recent years to repeatedly raise PBGC premiums with no debate or even a PBGC request for such hikes.

The flat-rate PBGC premium that all defined benefit plan sponsors must pay is $64 per participant this year. Under legislation passed last year, that rate will rise annually, reaching to $80 in 2019.

In addition, the 2015 law raised the so-called variable-rate premium for underfunded plans to $33 per $1,000 of plan underfunding in 2017, $37 in 2018 and $41 in 2019. That compares with $30 this year.

According to an earlier Congressional Budget Office report, the 2015 law will cost employers an additional $4 billion in PBGC premiums through 2025.

Business groups say there is no evidence that the PBGC needs more premium revenue. They say the agency has not been hit with a major claim of $1 billion or more from a failed pension plan in nearly seven years. In addition, the PBGC projected prior to the 2015 law hiking premiums that the deficit in its single-employer insurance program will drop to $4.9 billion by 2024 from nearly $24 billion last year.

“The single employer pension insurance program is in pretty good shape. There clearly is no compelling need for premium increases,” said Alan Glickstein, a senior retirement consultant at Willis Towers Watson P.L.C. in Dallas.

The sole motivator for the repeated PBGC premium rate hikes has been the provision in the 1980 law, the Multiemployer Pension Plan Amendments Act, allowing those hikes to be counted as federal revenue, which on paper shrinks the federal deficit, business groups say.

Some say the increases, though, actually damage the PBGC's financial health.

That is because the hikes have been a key factor in the growing employer move to shrink the size of their pension plans and the premiums they pay to the PBGC, Mr. Glickstein said.

Employers can shrink their pension plans by, for example, offering a cash lump sum to certain participants or buying a group annuity to shift plan benefit obligations to insurers.

“The sad, ironic aspect of all this is that premium hikes could shrink the PBGC's premium base, reducing premium income (and) hurting the PBGC's overall financial position,” Mr. Glickstein said.

“It is counterproductive. When Congress raises premiums, the PBGC's premium base will shrink,” said Deborah Forbes, executive director of the Washington-based Committee on Investment of Employee Benefit Assets, which represents large pension plan sponsors.

Educating Congress, though, on the damaging and counterproductive results of continued PBGC premium rate hikes will take time, experts acknowledge.

“It is an uphill and difficult climb. There is a significant educational component,” said Ms. Dudley of the American Benefits Council.

But benefits groups say they are prepared to wage that educational battle.

“We are working very hard and are meeting with many lawmakers and their staffs to convince them of the negative consequences to the PBGC and to the pension system of continual PBGC premium increases,” the ERISA Industry Committee's Ms. Guarisco Fildes said.