



PBGC proposal to streamline filing, payment process welcomed by employers

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The administrative hassle and expense of paying mandatory insurance premiums to the Pension Benefit Guaranty Corp. would be reduced for large pension plan sponsors under a proposal the agency released last week.

In many cases, employers with at least 500 participants in their pension plans now make three filings and payments a year to the PBGC. Under the proposal, they would have to make just one filing and payment a year.

The proposal, which the PBGC said it hopes will be adopted for the 2014 plan year, has been welcomed by employers.

“This is something that will really benefit plan sponsors. It is very good news,” said Deborah Forbes, executive director of the Bethesda, Md.-based Committee on Investment of Employee Benefit Assets, which represents large pension plan sponsors.

“These changes will help large employers by reducing the time and costs associated with premium payments,” said Kathryn Ricard, senior vice president-retirement security with the ERISA Industry Committee in Washington.

Under current rules, pension plans with at least 500 participants pay PBGC premiums twice a year.

The first payment is due two months after the start of a plan year, which is Feb. 28 for calendar year plans. What is known as the flat-rate premium is based on an employer's estimate on the number of plan participants as of the end of the prior year. The current flat-rate premium is \$42 per plan participant.

In addition, 9 1/2 months after the start of a plan year — or by Oct. 15 for calendar-year plans — a plan sponsor pays its second flat-rate premium based on actual plan enrollment at the end of the prior year.

If its plan is underfunded, the employer then also pays a variable-rate premium, which currently is \$9 per \$1,000 of plan underfunding.

At the same time, an employer calculates the exact flat-rate premium based on the actual participant count at the end of the prior year. The employer would make an additional payment, if it turns out that its earlier February estimate was too low.

If an employer underestimated its enrollment count in its February filing, it would be liable for a third payment

covering interest charges on the flat-rate premium. That payment would be due after the employer received a bill from the PBGC.

By contrast, under its proposal, large plan sponsors would pay the flat-rate and variable-rate premium just once a year, 91/2 months after the start of a plan year.

Since employers would know by Oct. 15 their actual plan enrollment on the last day of the prior year, the risk they now face of having to pay interest because they underestimated enrollment in their Feb. 28 filing would be eliminated.

“If we can't cut the premiums, we can at least cut the hassle,” PBGC Director Josh Gotbaum said in a statement.

Benefits experts say the proposal would cut administrative expenses for employers and the PBGC.

“This is very good news and welcome simplification,” said Heidi Rackley, a partner with Mercer L.L.C. in Seattle.

“This will simplify plan administration without increasing risk to the PBGC,” said Sandy Wheeler, a director with Pricewaterhouse-Coopers L.L.P. in Washington.

“It is a proverbial win-win situation,” said Alan Glickstein, a senior consultant with Towers Watson & Co. in Dallas.

For employers with 100 to 499 participants, there would be no change under the proposal. Those plan sponsors already have until 91/2 months after the start of a plan year to pay the PBGC premiums.

However, for small pension plan sponsors — those with less than 100 participants — the proposal would accelerate when they would pay premiums.

Currently, such sponsors have 16 months from the start of a plan year to pay the premiums. Under the PBGC proposal, however, small pension plan sponsors also would have to pay the premiums within 91/2 months after the start of a plan year.

For small plans that owe a variable-rate premium, though, the amount would be based on their funded status during the prior year.

That special treatment for small plans is because some value benefits at the end of a plan year and, as a result, they cannot calculate variable-rate premiums during the current year, the PBGC said.

“PBGC's proposed solution to this timing problem is for small plans to determine the variable-rate premium using data from the year before the premium payment year,” the PBGC said.

The proposal comes at a time when the financial health of pension plans has been improving due to rising interest rates, which reduce the value of plan liabilities, and solid investments results in the equities market.

As of June 30, pension plans sponsored by companies in the S&P 1500 were 88% funded, up from 86% at the end of May and 74% at the end of 2012, according to a Mercer analysis. Pension funding levels haven't been that high since October 2008, when plans were 89% funded on average.

Rising interest rates and a stronger equities market also could lead to a big improvement in the PBGC's financial condition, experts say.

In fiscal 2012, the PBGC reported a \$29.1 billion deficit in its single-employer insurance program, up from \$23.3 billion the prior year.

The deficit should show a decline this year as interest rates rise, Ms. Forbes said.