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PENSION ANALYST
COMPLIANCE BULLETIN

New budget agreement increases PBGC premiums for single-employer defined benefit plans and extends funding stabilization

On November 2, 2015, President Obama signed into law the Bipartisan Budget Act of 2015, which establishes federal government spending for the next two fiscal years and avoids a government shutdown. Despite concerns from industry groups and defined benefit plan sponsors, the legislation also increases the flat-rate premium and variable rate premium for single-employer and multiple employer defined benefit plans. The increase in premiums is an offset to spending increases. In addition, the agreement also extends funding stabilization that was originally provided in the Moving Ahead for Progress in the 21st Century Act (MAP-21) and extended by the Highway and Transportation Funding Act of 2014 (HATFA).

PBGC premium increases

Flat-rate premiums

Sponsors of qualified defined benefit plans that are subject to the ERISA plan termination insurance rules must file and pay annual plan termination insurance premiums to the PBGC.

For single-employer and multiple employer plans, a flat-rate premium is due for each individual who is a participant in the plan during the applicable plan year. Under current law, for 2016, the flat-rate per participant premium will be $64.

The new budget agreement increases the flat-rate per participant premium to:

- $69 for plan years beginning in 2017;
- $74 for plan years beginning in 2018; and
- $80 for plan years beginning in 2019.

Adjustments for inflation will be made in future years.

Variable rate premiums

Single-employer and multiple employer plans must also pay a PBGC variable rate premium (VRP) if they are underfunded. The VRP for 2016 will be $30 per $1,000 of underfunding.

Under the new budget agreement, the VRP will increase as follows:

- $33 per $1,000 of underfunding for plan years beginning in 2017;
- $37 per $1,000 of underfunding for plan years beginning in 2018; and
- $41 per $1,000 of underfunding for plan years beginning in 2019.

The VRP cap is $500 per participant in 2016. Adjustments for inflation will be made in future years.

Acceleration of premium payment date

Currently, the premium due date is the 15th day of the 10th full calendar month in the plan year (e.g., generally October 15th for calendar-year plans). If the premium due date falls on a Saturday, Sunday or Federal Holiday, the due date is automatically extended to the next business day. Under the new law, the premium due date that applies *only* to the 2025 plan year would be the 15th day of the ninth calendar month in the plan year (i.e., September 15 for a calendar plan year).

Mortality Tables

In general, defined benefit plans must use mortality tables published by the IRS to determine the present value for funding purposes and to calculate plan liabilities. However, a plan sponsor may use a substitute mortality table that reflects the plan's actual mortality experience as long as the mortality experience is "credible." Mortality experience is credible only if it is based on at least 1,000 deaths within a gender over the period covered by the experience study. The 1,000-death threshold is designed to provide a high degree of confidence that the plan's past mortality experience will be predictive of its future mortality. The experience study can be conducted over a two to five consecutive year period. To use substitute mortality tables, a plan sponsor must submit a written request to the IRS.

For plan years beginning after December 31, 2015, the determination of credible information will be based on established actuarial credibility theory, which is different from current regulations. In addition, plan sponsors may revise current IRS mortality tables to reflect the plan's experience. The IRS will need to provide guidance regarding substitute mortality tables.

Extension of funding stabilization

The Moving Ahead for Progress in the 21st Century Act (MAP-21) revised the rules for determining segment rates by adjusting a segment rate if it is outside a specified range of the average of the segment rates for the preceding 25-year period. If a segment rate for the applicable month is less than the applicable percentage, the segment rate is adjusted upward to match that percentage. If a segment rate is more than the maximum percentage, the segment rate is adjusted downward. MAP-21 defined the average segment rate as the average of the segment rates determined under the Pension Protection Act rules for the 25-year period ending September 30 of the calendar year preceding the calendar year in which the plan year begins.

The Highway and Transportation Funding Act of 2014 (HATFA) revised the MAP-21 applicable minimum and maximum percentages for the 2013-2017 plan years for determining when a segment rate is adjusted upward or downward. HATFA also extended the pension funding relief provided by MAP-21 through 2017.

The new law extends the current 90% to 110% stabilized interest rate corridor for three years and delays the start of the phase-out period until 2021.

Beginning with the 2021 plan year, the corridors between the minimum and maximum percentages begin to widen. The specified percentage depends on the calendar year in which the plan year begins as indicated below:

Calendar year	Applicable minimum percentage	Applicable maximum percentage
2012-2020	90	110
2021	85	115
2022	80	120
2023	75	125
After 2023	70	130

Next steps

Plans sponsors should read the guidance discussed in this newsletter. If you have any questions about the information contained in this newsletter, you should contact your plan's enrolled actuary. Prudential Retirement's enrolled actuaries are prepared to respond to your inquiries regarding the effect of the new law on your plan and develop solutions to comply with the new law's requirements.

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