Deficit Reduction Act of 2005 Increases PBGC Premiums

On February 8, 2006, President Bush signed the Deficit Reduction Act of 2005 into law. The new law increases Pension Benefit Guaranty Corporation (PBGC) premiums for both single employer and multiemployer defined benefit plans. The increased premiums are effective for plan years beginning on or after January 1, 2006.

For single employer defined benefit plans, the flat-rate per participant premium is increased from $19 to $30. In addition, the new law increases the flat-rate per participant premium for multiemployer defined benefit plans from $2.60 to $8.00. For the 2007 plan year and later plan years, the premiums will be adjusted annually for inflation, applying the same wage base used for Social Security indexing, rounded to the nearest dollar. The new law does not affect the variable premium rate paid by underfunded pension plans.

In addition, a special per participant premium will be assessed on underfunded single employer plans that terminate after December 31, 2005 in a distress termination or in an involuntary termination by the PBGC. The special premium will be $1,250 per participant and is payable annually for each of the three years beginning the month following the date of termination and each anniversary, or if later, the employer’s exit from bankruptcy. This premium is in addition to any other PBGC premiums that are due for the plan year. If the plan termination occurs as part of a bankruptcy reorganization, the special premium applies only if the bankruptcy was filed after October 18, 2005. Unless Congress takes other action, the special premium for involuntary terminations will not apply to plan terminations that occur after December 31, 2010.

The PBGC has indicated that they will now issue the 2006 final filing forms and instructions (Form 1-EZ, Form 1, Schedule A) to reflect the premium increase. Large calendar year plans are expected to have sufficient time to file their estimated premiums at the new rates before the February 28, 2006 due date. Plan sponsors that have filed their estimated premiums at the old premium rate will need to submit an amended filing. The amended filing will be treated as timely if it is made by the estimated premium due date (e.g., February 28, 2006, for calendar years).

The PBGC also intends to update the premium rates so that plan sponsors can use My Plan Administration Account (MY PAA) to electronically submit filings by the filing due date (e.g. February 28, 2006, for calendar year plans).

Plan sponsors that use Prudential Retirement’s actuarial valuation service and have already received their premium filing packages, reflecting the old premium amounts, will not receive new packages. Plan sponsors
that have not yet filed their estimated premiums may use the paper version of the 2006 Form 1-ES and simply
cross out the old rate and write in the new rate. Alternatively, they may e-file by using MY PAA. Plan
sponsors that have already filed their estimated premiums may submit their amended filings by using either of
these approaches (additional copies of Form 1-ES may be downloaded from the PBGC Web site). All other
plan sponsors that use Prudential’s actuarial valuation services will receive premium filing packages that
reflect the increased premium amounts.