

# Pension ANALYST

Important Information

Plan Administration and Operation

February 2008



## PBGC Provides Premium Guidance For Defined Benefit Plans

**WHO'S AFFECTED** These developments affect sponsors of qualified defined benefit plans that are subject to PBGC premium requirements, including cash balance plans and multiemployer plans. Governmental plans and plans sponsored by churches that do not elect to be covered by ERISA (“non-electing church plans”) are not subject to these rules.

**BACKGROUND AND SUMMARY** 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 Pension Benefit Guaranty Corporation (PBGC).

The Deficit Reduction Act of 2005 (DRA) increased the PBGC premiums for both single-employer and multiemployer defined benefit plans. That law also created a special per participant termination premium, to be paid by underfunded single-employer plans that terminated after December 31, 2005, but before January 1, 2011, in certain distress or involuntary termination situations.

The Pension Protection Act of 2006 (PPA) made changes to the variable rate premium. PPA also made permanent the special termination premium. On December 17, 2007, the PBGC issued final regulations to implement the various premium provisions of DRA and PPA. These new rules are effective January 16, 2008.

In addition, the PBGC recently announced the 2008 inflation-adjusted flat-rate premium for single-employer plans and multiemployer plans. These rates are automatically adjusted for wage inflation as required by the Deficit Reduction Act of 2005.

The PBGC also announced the maximum monthly guarantees for plans that terminate in 2008. While participants become 100% vested in their accrued benefits upon plan termination, the PBGC limits benefit guarantees to certain amounts. These amounts are published annually.

**ACTION AND NEXT STEPS** The guidance described in this *Pension Analyst* affects the calculation of the 2008 flat-rate and variable rate per participant premiums. Plan sponsors and their advisors should familiarize themselves with the information contained in this publication and discuss any questions or concerns they may have with the plan’s enrolled actuary.

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Until the enactment of DRA, the flat-rate premium for single-employer and multiemployer plans had remained unchanged for many years. For single-employer plans, DRA increased the flat-rate per participant premium from \$19 to \$30. In addition, the law increased the flat-rate per participant premium for multiemployer plans from \$2.60 to \$8.00.

**Calculation of Flat-Rate Premium for Multiemployer Plans**

For multiemployer plans, a flat-rate premium is due for each individual who is a participant in the plan during the applicable plan year. The final PBGC rules provide that the participant count must be taken as of the “premium snapshot date,” which is generally the last day of the plan year preceding the premium payment year.

**Inflation Adjustments**

For the 2007 plan year and later plan years, the flat-rate premium must be adjusted annually for inflation. If the adjustment produces an amount that is not a whole dollar amount, the premium rate is rounded up to the nearest whole dollar. However, the final PBGC rules provide that the premium rate will never decrease. If the change in the index used to determine the adjustment is negative, the premium rate remains the same as in the preceding year.

Recently, the PBGC published the 2008 flat-rate premium amounts. For single-employer plans, the premium increases from \$31 to \$33 per participant. The multiemployer flat-rate premium increases from \$8 to \$9 per participant for 2008.

**Variable Rate Premiums for Small Plans**

In general, the variable rate premium for single-employer plans is \$9 for each \$1,000 of unfunded vested benefits. However, the final PBGC rules reflect the PPA provision that limits the amount of the total variable rate premium paid by single-employer plans sponsored by “small employers.” For these plans, the variable rate premium is no more than \$5 times the square of the number of participants in the plan on the last day of the plan year preceding the premium payment year.

*For example, if the number of participants in the plan on the last day of the plan year preceding the premium payment year is 20, the variable-rate premium cannot exceed \$2,000 ( $\$5 \times 20^2 = \$5 \times 400 = \$2,000$ ).*

A “small employer” is a plan sponsor that has 25 or fewer employees on the first day of the plan year. For purposes of determining the number of employees, the plan sponsor generally must count all employees of all employers in its controlled group on the first day of the premium payment year who would be counted in minimum coverage testing. In addition, the plan sponsor must count the following employees who are typically excluded from the minimum coverage test:

- Collective bargaining employees;
- Employees who do not meet the plan’s age and service requirements; and
- Employees of separate lines of business.

The employee count must also include affiliated service group employees and leased employees.

## Termination Premiums

DRA established an additional \$1,250 per participant premium to be assessed on underfunded single-employer plans that terminate after December 31, 2005, in certain distress termination situations or in an involuntary termination initiated by the PBGC. The termination premium is based on the number of participants in the plan immediately before the [termination date](#). The final rules clarify that termination premiums are payable if *any* contributing sponsor or member of a contributing sponsor’s controlled group is the subject of a Chapter 11 bankruptcy reorganization proceeding or a business hardship.

Termination premiums are payable annually for each of the three consecutive 12-month periods beginning the month following the [plan termination date](#) or, if later, the employer’s exit from bankruptcy. Premiums are due within 30 days after the beginning of each 12-month period. If a termination premium is paid late, the PBGC will assess penalties based on the facts and circumstances of the specific situation.

## Termination Date

According to the final rules, the termination date in a distress termination situation is the date established by the plan administrator and agreed to by the PBGC. For an involuntary termination, the termination date is the date agreed to by the plan administrator and the PBGC. If there is no agreement, the termination date must be established by the court.

If a plan’s termination date is in the past when it is established by agreement or court action, the first 12-month premium payment period begins immediately after the month in which the termination date is established.

## Premium Filing Requirements

Each contributing sponsor and controlled group member, determined as of the day before the plan [termination date](#), is responsible for filing the required termination information and payment. The final rules ensure that, as long as there is at least one person still in existence that is liable for the termination premium, there will be at least one identifiable entity with responsibility to file. As a result, only a single premium filing is required, but if it is not timely made, the PBGC could seek payment from any and all contributing sponsors and their controlled group members.

## 2008 PBGC Maximum Monthly Guarantees

Upon plan termination, a participant becomes 100% vested in his or her accrued benefit. In the event of a distress termination or a termination initiated by the PBGC, the PBGC may use its own assets to pay benefit

obligations to current and future retirees if the terminated plan does not have sufficient assets. However, the PBGC does not guarantee all vested accrued benefits. For example, the PBGC guarantees “basic benefits” earned before the plan terminated, which include the following:

- Pension benefits at normal retirement age;
- Most early retirement benefits;
- Annuity benefits for survivors of plan participants; and
- Disability benefits for disabilities that occurred before the plan termination date.

In addition, the PBGC sets limits on the amounts of those benefits that it does guarantee. The maximum guarantee amount is set by law and applies for the year of termination, even if the participant does not retire for several years. Annually, the PBGC publishes the maximum guarantee. Recently, the PBGC published its maximum guarantee tables for plans terminating in 2008. For single-employer plans that terminate in 2008, the maximum guaranteed monthly benefit paid by the PBGC increases from \$4,125.00 to \$4,312.50. This is the maximum amount payable in the form of a life annuity beginning at age 65. If the benefit is payable in a different form or begins at a different age, the maximum guaranteed benefit is the actuarial equivalent of \$4,312.50.

The PBGC does not impose a dollar limit on the monthly benefit for multiemployer plans. However, the PBGC does limit the benefit rate used to calculate the monthly benefit. This limit is not adjusted annually.

## Next Steps

Plan sponsors should become familiar with the 2008 flat-rate per participant premium so that their PBGC premium filings and payments reflect the correct amount. If Prudential Retirement provides the actuarial services for your plan, you may want to discuss any questions with your Prudential enrolled actuary.

### **Pension Analyst by Prudential Retirement**

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