KRAVITZ

Information Release

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Bipartisan Budget Act Includes Increased PBGC Premiums for Cash Balance and Defined Benefit Plans

Background

The Bipartisan Budget Act of 2015 ("BBA") was passed into law last week, extending the federal debt ceiling and solidifying government spending levels for the next two years. A major source of revenue for the budget deal comes from increasing premiums paid to the Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures private sector Cash Balance and defined benefit plans in case of plan sponsor insolvency. PBGC coverage is not required for most plans sponsored by professional services organizations with 25 or fewer active participants.

The PBGC rate hikes are summarized in the chart below and will be phased in over three years starting in 2017; the 2015 and 2016 rate increases were already in place under a prior budget deal passed in 2013. The current flat rate of $57 per participant was already slated to rise to $64 in 2016, and under the BBA, flat rates will rise to $80 per participant in 2019. Variable rate premiums, which apply only to underfunded plans, will increase annually to reach $41 by 2019. These latest PBGC premium increases come on top of flat and variable rate hikes included in federal legislation enacted in 2005, 2012, and 2013. There are no scheduled increases after 2019, other than indexing for inflation.

PBGC Premium Summary

Plan years beginning in	Per Participant Flat Rate	Variable Rate Premium Per $1,000 UVBs*
2015	$57	$24
2016	$64	$30
2017	$69	$33
2018	$74	$37
2019	$80	$41

**Variable rate premiums apply to underfunded Cash Balance and defined benefit plans. Premiums are calculated based on unfunded vested benefits (UVBs). Premiums are subject to indexing for inflation and are capped at $500 per participant. The cap may be lower for small plans with fewer than 25 participants.*

What Are We Doing to Help Our Clients?

The Kravitz client services and actuarial teams have developed a variety of innovative solutions to help minimize PBGC premiums, and we continue to work closely with our clients' financial advisors on funding status to avoid costly variable rate premiums. Our strategies have included changing interest rate methodologies and re-characterizing contributions for different plan years, helping a few clients save more than $100,000 in PBGC premiums. Kravitz consultants are dedicated to helping all plan sponsors manage their retirement plans in the most cost effective way possible.

We have also joined many others in our industry to voice our opposition to funding federal budget deals in ways that penalize the private pension system. We believe these rate increases pose an unfair burden to plan sponsors and are entirely counterproductive to the PBGC's goal of strengthening the nation's retirement system. We will continue working with our industry political action committee to advocate for progressive policies that support and encourage companies who generously provide retirement benefits to their employees.

If you have any questions about these PBGC premium changes or any other aspect of your plan, please contact your Kravitz consultant.