

PBGC Premiums

More than a Budget Gimmick

Background

The Pension Benefit Guaranty Corporation (PBGC) was established by the Employee Retirement Security Act to insure retirement benefits promised by private defined benefit retirement plans. PBGC is an independent agency. Premiums paid by employers that sponsor defined benefit pension plans cover operational expenses, as well as the unfunded portion of the liability for benefits “dumped” on PBGC by companies that go out of business, or re-organize, with underfunded retirement plans. There is a cap on the amount of pension guaranteed by PBGC – currently \$4,500 per month payable as a lifetime income to someone who retires at age 65 or older, with reduced guarantees for earlier retirement ages.

The premiums for PBGC were originally set at \$1 per participant. Congress has periodically increased the premiums. Currently, single employer defined benefit plans pay a “flat” premium of \$35 per participant, plus a “variable” premium equal to \$9 for every \$1,000 of underfunding. The variable premium is capped for plans with 25 or fewer participants. The Deficit reduction Act of 2005 also added a “post-termination” premium of \$1,250 per participant for \$1,250 per person payable for three years following the termination of an underfunded plan.

Current Activity

The President’s budget, and his recent deficit reduction proposal, included \$16 billion in increased PBGC premium collections over the next 10 years. Premiums for 2010 were about \$2.2 billion, so **this would be about an 80% increase in premiums to be paid over the 10 year period**. This is, in effect, a \$16 billion tax increase on companies that have chosen to sponsor a defined benefit pension plan.

Supporters of a premium increase argue that PBGC has a projected deficit, and additional premiums are needed. Although PBGC itself does project a deficit, at least part of that deficit is due to current low interest rates, and the deficit will shrink when interest rates rise. There is no consensus that PBGC even needs an additional \$16 billion. Furthermore, the proposal is a budget gimmick. PBGC would collect the revenue – not a single cent would go to general revenues.

Recommendations

Congress should carefully consider PBGC increases in light of the health of PBGC and the private pension system.

- **Increased PBGC premiums should not be a budget gimmick slipped through Congress in the guise of deficit reduction.** An arbitrary increase in flat premiums penalizes responsible employers who sponsor well-funded defined benefit plans.
- **Congress should not relinquish its authority to establish appropriate PBGC premiums.** Allowing PBGC to set its own premiums would be like allowing IRS to set the tax rates.