



Giveth and Taketh, Part 2

The new MAP-21 legislation

THE Moving Ahead for Progress in the 21st Century Act (MAP-21) became law on July 6, with the primary goal of reauthorizing programs such as the Federal Highway Trust Fund and subsidies for student loans. It also includes significant pension changes to offset these expenditures. In my last column, I discussed the funding relief for defined benefit (DB) pension plans; in this issue, I tackle the Pension Benefit Guaranty Corporation (PBGC) premium increases. As I noted earlier, advisers who work with defined benefit plans would be well-advised to take notice of these changes, to understand the consequences to their clients.

PBGC Premium Increases

MAP-21 also shores up PBGC's finances by enacting premium increases that narrow the agency's \$26 billion budget deficit. The administration had sought to give PBGC's board authority to adjust premiums by taking into account the risks that different sponsors pose to their retirees. The administration's goal was to raise an additional \$16 billion, but, in accepting MAP-21, it settled for a little over half this amount, and the premium increases are specified by Congress. Far from granting the PBGC board enhanced authority, MAP-21 includes several governance changes and requires a study of the PBGC board structure, as well as peer review of the PBGC's modeling and actuarial work.

Under MAP-21, the flat-rate premium per participant in a single-employer plan for 2012 remains at \$35 but increases to \$42 in 2013 and \$49 in 2014, with inflation adjustments in future years. The multiemployer flat-rate premium increases to \$12 per participant from its current \$9 level for years beginning in 2013 and is indexed for inflation thereafter.

The variable-rate premium per \$1,000 of unfunded vested benefits in a single-employer plan is currently \$9, which will be adjusted for inflation in 2013; however, in 2014, \$4 will be added to the \$9 amount (plus inflation), and in 2015 the variable premium will rise by another \$5 (plus inflation). As noted above, MAP-21 will also have the potential effect of further increasing the variable premium by enlarging the unfunded benefits to which the variable rate applies. However, there is a new \$400 per participant limit (indexed for inflation) on the variable-rate premium for plan years beginning in 2013.

Surplus Asset Transfers

If certain conditions are met, the Internal Revenue Code (IRC) permits an overfunded defined benefit plan to transfer a portion of its surplus assets to a plan account designated to pay retiree health benefits. This provision was scheduled to expire on December 31, 2013, but MAP-21 extended it to December 31, 2021, and also added a provision allowing such transfers to a plan account that funds premiums for retiree group term life insurance limited to \$50,000 of coverage.

Concluding Observations

MAP-21 cannot be applied until the Internal Revenue Service (IRS) and Treasury issue guidance on the applicable minimum and maximum rates that may be substituted for the current segmented interest rates. This, in turn, requires the development and publication of 25-year averages of yield curve segments that will be the basis for the range of interest rates bounded by the minimum and maximum rates.

In the meantime, defined benefit plan sponsors should consider the overall advantage or detriment of electing to be covered by the new rules based on the projections of their actuarial advisers. MAP-21 is a double-edged sword in that its interest rate provisions may temporarily reduce required funding for many plans but could cause contributions to increase over the long term, if interest rates increase significantly in future years. If interest rates do rise, it is possible they will exceed the upper end of the premium stabilization range, which would act as a ceiling on the applicable interest rate for funding purposes and thereby increase funding requirements compared with what they might otherwise have been.

In addition, to the extent that MAP-21 reduces required contributions, a plan will have a larger unfunded benefit liability and incur higher liability for PBGC premiums. Thus, the impact of the plan's funding status on its liability for PBGC premiums should also be considered.

In light of these uncertainties, defined benefit plan sponsors would be well-advised to assess how the new law may affect their particular facts before making decisions as to whether they should elect to be covered under the new law.

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