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Pension Provisions in H.R. 1314, the Proposed Bipartisan Budget Act of 2015

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H.R. 1314, Ensuring Tax Exempt Organizations the Right to Appeal Act, which is the vehicle used for the Bipartisan Budget Agreement of 2015, contains a number of provisions that would affect (1) the premiums that pension plan sponsors pay to the Pension Benefit Guaranty Corporation (PBGC) and (2) the amount of contributions that the sponsors of defined benefit (DB) pension plans are required to make on an annual basis. These provisions would result in an increase in revenues to the U.S. Treasury and offset provisions in the bill that are unrelated to pension plans.

In DB pension plans, participants receive a monthly payment in retirement that is based on a formula that typically uses a combination of length of service, accrual rate, and average of final years' salary. About 19% of the full-time private-sector workforce in the United States participates in DB pensions. See CRS Report R43439, *Worker Participation in Employer-Sponsored Pensions: A Fact Sheet*.

As a result of both decreases in spending and increases in revenues, CBO has indicated that the pension provisions in H.R. 1314 would result in a decrease in the federal deficit of $11.6 billion from FY2016 to FY2025.

Increases in Pension Benefit Guaranty Corporation Premiums

PBGC is a federal government agency established in 1974 to protect the pension benefits of participants in the private-sector DB pension plans. PBGC runs two distinct insurance programs for single-employer and multiemployer plans. Single-employer pensions are plans established by one employer for the benefit of that company's workers. Multiemployer plans are collectively bargained plans to which more than one company makes contributions. PBGC maintains separate reserve funds for each program. For more information on PBGC and PBGC premiums, see CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*.

PBGC's single-employer program is funded by (1) premiums, set by Congress, that pension plan sponsors pay, (2) assets from terminated plans taken over by PBGC, (3) investment income, and (4) recoveries collected from companies when they end underfunded pension plans.

The proposal would increase two of the premiums that sponsors of single-employer DB pension plans pay to PBGC:

- **Flat-rate premiums.** Plan sponsors pay an annual per-participant premium, which, under current law, will be $64 in 2016, then will increase annually based on changes in the national average wage beginning in 2017. The proposal would increase the premium to $68 in 2017, $73 in 2018, and $78 in 2019. After 2019, the premium would increase based on changes in the national wage index.
- **Variable-rate premiums.** A pension plan is underfunded if it does not have sufficient assets from which to pay 100% of the benefits to which participants have a legal right. Employers that sponsor underfunded plans pay an annual premium to PBGC based on the amount of plan underfunding. Under current law, in 2016 this premium will be $30 for each $1,000 of unfunded vested benefits and will increase each year based on changes in the national wage index. Under the proposal, after the premium is adjusted based on changes in the national wage index each year, it would increase by $2 in 2017, $3 in 2018, and $3 in 2019.

PBGC premium revenues are placed in an on-budget revolving fund, so increases in PBGC premiums are recognized as increases in U.S. Treasury revenue.

Pension Payment Acceleration

Under the proposal, for 2025, PBGC premiums will be due on the 15th day of the 9th month of a pension plan's year, rather than on the 15th day of the 10th month. For plans that begin their plan years on January 1, PBGC premiums would be due on September 15, 2025 (which is in FY2025), rather than on October 15, 2025 (which is in FY2026). This change would bring the premiums that are due in October 2025 to within the 10-year budget window of the bill.

Mortality Tables

Actuaries use mortality tables to estimate how long plan participants can be expected to live, and hence the amount of benefits a plan will have to pay in the future.

Generally, pension plans use mortality tables that are produced by the U.S. Treasury. Plans may, under certain circumstances, apply to the Treasury to use different mortality tables. An example of such a circumstance would be if the plan has credible experience from which to use its own mortality table. Under the proposal, plans would be able to use actuarial "credibility theory" in making their applications to use a substitute mortality table. The proposal would allow more plans to adopt substitute mortality tables.

A plan might have an interest in adopting a substitute mortality table that would lead to a reduction in future benefit obligations. The plan sponsor would be able to contribute less to the pension plan. Because pension plan contributions are a tax-deductible expense, reduced pension plan contributions would lead to an increase in the employer's taxable income and, thus, increased revenue for the U.S. Treasury.

Extension of Current Funding Stabilization Percentages to 2018, 2019, and 2020

The U.S. Treasury calculates the discount rates that private-sector DB pension plans use to calculate the values of their future benefit obligations. For several reasons, including a response to historically low discount rates, The Moving Ahead for Progress in the 21st Century Act (MAP-21; P.L. 112-141) allowed DB pension plans to use higher discount rates than otherwise would have been required. Over a period of years, these higher rates were scheduled to become lower. H.R. 5021, the Highway and Transportation Funding Act of 2014 (HTF; P.L. 113-159), delayed the implementation of the lowering of these higher discount rates. H.R. 1314 would further delay the implementation of the schedule to lower the discount rates. This would result in lower contributions to DB pension plans by plan sponsors and an increase in employers' taxable income.

For information on this provision, see CRS Insight IN10383, *Pension Funds Stabilization Provisions in the Proposed Bipartisan Budget Act of 2015*.