RISING PBGC PREMIUMS AND THE COST OF BEING UNDERFUNDED

ERISA established the Pension Benefit Guaranty Corporation (PBGC) to protect participants' retirement benefits in private-sector plans, but rising premiums continue to create pain for plan sponsors that have underfunded pension plans. The exhibits below demonstrate some potential options plan sponsors can pursue with the intent of minimizing PBGC premiums.

PBGC OPTIMIZATION STRATEGIES

- **Lump Sums.** Offer terminated-vested or retiree participants a one-time payment for the present value of their future annuity benefits.
- **Buyout Annuity.** Purchase a group annuity contract for retirees to transfer their pension obligations to an insurance company.
- **Variable-Rate Premium Rate Method.** As interest rates rise, discount rate and funded status improves, thereby reducing variable-rate premiums. Meanwhile, using the alternative premium funding target could lower the VRP owed in a declining rate environment. Regardless, once selected, the method must be applied for five years.
- **Contributions:** Contributions to the plan reduce variable-rate premiums. This strategy should be considered as a way to free up capital for more efficient operational needs of the organization.

PREMIUM TYPES

- **Flat-Rate Premium:** $96 per participant; more than doubled (129%) since 2013.
- **Variable-Rate Premium:** $52 per $1,000 unfunded vested benefits (UVB); increased 478% since 2013.
- **Variable-Rate Cap:** $652 per participant; increased 63% since 2013.

Steady Rise of PBGC Premiums