Bipartisan Budget Act of 2015 Includes Pension and Healthcare Changes

by Jeffrey Thornton, ASA, EA, MAAA

President Obama recently signed the Bipartisan Budget Act of 2015 (BBA 2015), enacting further changes for pension and healthcare plan sponsors. BBA 2015 contains more premium increases for the Pension Benefit Guaranty Corporation and also extends the funding relief used for determining required contributions that were part of Moving Ahead for Progress in the 21st Century Act (MAP-21) and the Highway and Transportation Funding Act of 2014 (HATFA). The changes are intended to increase revenue through higher premiums to the PBGC, as well as indirectly raising the corporate tax rate by reducing tax-deductible contributions to pension plans to the extent that a plan sponsor relies on the additional funding relief provisions. BBA 2015 also repeals the Affordable Care Act's (ACA) requirement that employers with more than 200 employees automatically enroll new employees in health coverage.

Private sector pension plan provisions

PBGC premiums to rise. BBA 2015 increases the PBGC fixed-rate premiums for single-employer plans by approximately seven to eight percent beginning in 2017 through 2019. The provisions also increase the variable-rate premium for single-employer plans but not the per-participant cap basis. The fixed-rate and variable-rate will still be indexed for inflation each year. PBGC's multiemployer premium of $27 in 2016 will remain the same. The table below provides the scheduled premium rates per PBGC.gov.

Accelerated pension payment due date. BBA 2015 also accelerates the payment due date for the 2025 plan year only. Pension premium payments will move forward by one month in 2025 (from the 15th day of the tenth calendar month of the year to the 15th day of the ninth calendar month). For calendar year plans, this would be a change from October 15, 2025 to September 15, 2025. This adds an additional year of premium revenues to the federal government's ten-year budget window.

Extension of interest rate corridors. The interest rate corridors, which were put in place in 2012 by MAP-21 and revised in 2014 by HATFA, are further revised in BBA 2015. The 90 percent to 110 percent interest rate corridor, currently in effect through 2017, is extended for three more years and will remain in effect through 2020. The corridor will then increase by five percent each year through 2023. Beginning in 2024, the corridor widens to span from 70 percent to 130 percent. The funding relief comes by restricting the interest rates used to value liabilities to a narrow corridor around a 25-year average of investment grade corporate bond rates. Since these rates have been higher in the past, this creates higher-than-market interest rates and results in lower liabilities and minimum required contributions through 2020. The table on the following page compares the interest rate corridors under MAP-21, HATFA, and BBA 2015.

Expanded options for mortality tables. Under current law, upon request by the plan sponsor and approval by the IRS, a plan may use its own mortality tables. Currently, plans must have a sufficient number of plan participants to justify an alternative table, and the plans must have been

PBGC Premium Rates for Single-Employer Pension Plans

Year	*Flat-Rate Premiums*[1]	*Variable-Rate Premiums*[2]	*Variable-Rate Premium Cap (Per Participant)*	
2015	$57	$24	$418	Bipartisan Budget Act of 2013
2016	$64	$30	$500	
2017	$69	$33[3]	$500[3]	Bipartisan Budget Act of 2015
2018	$74	$37[3]	$500[3]	
2019	$80[3]	$41[3]	$500[3]	

[1] *The flat-rate premium is equal to the amount in the table above multiplied by the PBGC Premium Rates for the number of participants*

[2] *The variable-rate premium is equal to the amount in the table above for each $1,000 of unfunded vested benefits (subject to the per-participant cap)*

[3] *Rates as noted above are subject to indexing, and therefore may be higher than the amount shown. After 2019, all rates are subject to indexing. There are no scheduled increases (other than indexing) for years after 2019.*

maintained long enough to have credible information. BBA 2015 provides plan sponsors the ability to use their own mortality tables. This option is available provided the plan has credible information generated in accordance with established actuarial credibility theory, and the information is materially different from the current IRS standards. Further guidance from the IRS is currently being requested regarding this issue.

<table>
<tr><th>Plan Year</th><th>MAP-21 Corridor Range</th><th>HATFA Corridor Range</th><th>2015 Budget Act Corridor Range</th></tr>
<tr><td>2015</td><td>75 to 125%</td><td rowspan="3">90 to 110%</td><td rowspan="6">90 to 110%</td></tr>
<tr><td>2016</td><td rowspan="9">70 to 130%</td></tr>
<tr><td>2017</td></tr>
<tr><td>2018</td><td>85 to 115%</td></tr>
<tr><td>2019</td><td>80 to 120%</td></tr>
<tr><td>2020</td><td>75 to 125%</td></tr>
<tr><td>2021</td><td rowspan="4">70 to 130%</td><td>85 to 115%</td></tr>
<tr><td>2022</td><td>80 to 120%</td></tr>
<tr><td>2023</td><td>75 to 125%</td></tr>
<tr><td>2024 and later</td><td>70 to 130%</td></tr>
</table>

Health care provisions

The Budget Act of 2015 repeals the ACA provision requiring employers with more than 200 full-time employees to automatically enroll new employees in health coverage and continue enrollment of current employees. This repeal provides permanent relief for larger employers, since the Department of Labor has not yet issued regulations to implement this provision of the ACA.

In perspective

With the passage of the 2015 Bipartisan Budget Act, plan sponsors have extended funding relief for their plans; although, this relief may come at a later cost as funding relief wears away in the future. The continued increase in PBGC premiums may cause pension plan sponsors to consider—or reconsider—risk transfer programs, such as lump sum windows or annuity purchases, in an effort to reduce risk to the plan sponsor and reduce PBGC premiums.

The repeal of automatic medical plan enrollment for new employees relieves larger employers from administrative burdens and cost.

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