

PENSION BENEFIT GUARANTY CORPORATION (PBGC)

Statement of Regulatory and Deregulatory Priorities

PBGC Insurance Programs

The Pension Benefit Guaranty Corporation (PBGC) administers two insurance programs for private defined benefit plans under title IV of the Employee Retirement Income Security Act of 1974 (ERISA): A single-employer plan termination insurance program and a multiemployer plan insolvency insurance program. The PBGC protects the pensions of nearly 43 million working men and women in about 38,000 private defined benefit plans, including about 1,800 multiemployer plans.

Under the single-employer program, the PBGC pays guaranteed and certain other pension benefits to participants and beneficiaries if their plan terminates with insufficient assets (distress and involuntary terminations). At the end of fiscal year 2000, the PBGC was trustee of almost 2,900 plans and paid \$903 million in benefits to about 244,000 people during 2000. Another 314,000 people will receive benefits when they retire in the future.

Most terminating single-employer plans terminate with sufficient assets to pay all benefits. The PBGC has administrative responsibility for these terminations (standard terminations), but its role is limited to seeing that proper procedures are followed and participants and beneficiaries receive their plan benefits.

The multiemployer program (which covers about 9 million workers and retirees in about 1,750 insured plans) is funded and administered separately from the single-employer program and differs in several significant ways. The multiemployer program covers only collectively bargained plans involving more than one unrelated employer. The PBGC provides financial assistance (in the form of a repayable loan) to the plan if the plan is unable to pay benefits at the guaranteed level. Guaranteed benefits are generally less than a participant's full benefit under the plan (and less than the single-employer guaranteed benefit). PBGC financial assistance occurs infrequently.

The PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums, investment income, assets from pension plans trustee by the PBGC, and recoveries from the companies formerly responsible for the trustee plans.

To carry out these functions, the PBGC must issue regulations interpreting such matters as the termination process, establishment of procedures for the payment of premiums, and assessment and collection of employer liability.

Objectives and Priorities

PBGC regulatory objectives and priorities are developed in the context of the statutory purposes of title IV: (1) to encourage voluntary private pension plans, (2) to provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries, and (3) to maintain the premiums that support the insurance programs at the lowest possible levels consistent with carrying out the PBGC's statutory obligations (ERISA section 4002(a)).

The PBGC implements its statutory purposes by developing regulations designed: (1) to assure the security of the pension benefits of workers, retirees, and beneficiaries; (2) to improve services to participants; (3) to ensure that the statutory provisions designed to minimize losses for participants in the event of plan termination are effectively implemented; (4) to encourage the establishment and maintenance of defined benefit pension plans; (5) to facilitate the collection of monies owed to plans and to the PBGC, while keeping the related costs as low as possible; and (6) to simplify the termination process.

Regulatory and Deregulatory Initiatives

The PBGC has focused on changes that would simplify the rules and reduce regulatory burden. For example, over the past few years, the PBGC:

- Reduced penalties for late premiums that are paid before the PBGC notifies the plan of the delinquency.
- Extended the time limits for various actions required to terminate a fully funded single-employer plan in a standard termination.
- Stopped the reduction of monthly benefits under its actuarial recoupment method once the nominal amount of the benefit overpayment is repaid.
- Provided participants with benefits valued up to \$5,000 in PBGC-trusteed plans with the choice of receiving their benefit in the form of an annuity or a lump sum.
- Extended the filing date for PBGC premiums to match the latest Form 5500 filing date.

- Encouraged self-correction of premium underpayments by making it easier to qualify for safe-harbor penalty relief.
- Simplified its valuation assumptions by adopting a single set of assumptions for allocation purposes.
- Assured the public that it intended to continue to calculate and publish its lump sum interest rates indefinitely and amended its regulations to make it easier for practitioners to refer to those rates.
- Solicited public comment on benefit valuation and payment issues relating to terminated cash balance plans that use variable indices to determine future retirement benefits.

In FY 2001, the PBGC:

- Amended its premium regulation to allow plan administrators to pay a prorated premium for a short plan year rather than paying a full year's premium and requesting a refund (final rule, December 1, 2000).
- Amended its premium regulation to simplify and narrow the definition of "participant" for PBGC premium purposes (final rule, December 1, 2000).
- Simplified its premium forms by introducing a new "Form 1-EZ" for use by single-employer plans that are exempt from the PBGC's variable-rate premium.
- Proposed to amend its benefit payments regulations to give participants more choices of annuity benefit forms, to clarify what it means to be able to "retire" under plan provisions for certain purposes under title IV of ERISA, and to add rules on who will get certain payments the PBGC owes to a participant at the time of death (proposed rule, December 26, 2000).
- Published a proposed penalty policy to provide guidance on assessment and review of penalties and on what constitutes "reasonable cause" for a penalty waiver (proposed rule, January 12, 2001).

The PBGC is continuing to review its regulations to look for further simplification opportunities. The PBGC's regulatory plan for October 1, 2001, to September 30, 2002, consists of one significant regulatory action.

PBGC

 PROPOSED RULE STAGE

151. ALLOCATION OF ASSETS IN SINGLE-EMPLOYER PLANS; VALUATION OF BENEFITS AND ASSETS
Priority:

Other Significant

Legal Authority:

29 USC 1302(b)(3); 29 USC 1341; 29 USC 1301(a); 29 USC 1344; 29 USC 1362

CFR Citation:

29 CFR 4044, subpart B

Legal Deadline:

None

Abstract:

The Pension Benefit Guaranty Corporation is considering amending its benefit valuation and asset allocation regulations by adopting more current mortality tables and otherwise simplifying and improving its valuation assumptions and methods.

Statement of Need:

The PBGC's regulations prescribe rules for valuing a terminating plan's benefits for several purposes, including (1) determining employer liability and (2)

allocating assets to determine benefit entitlements. The PBGC's interest assumption for valuing benefits, when combined with the PBGC's mortality assumption, is intended to reflect the market price of single-premium, nonparticipating group annuity contracts for terminating plans. In developing its interest assumptions, the PBGC uses data from surveys conducted by the American Council of Life Insurers. The PBGC currently uses a mortality assumption based on the 1983 Group Annuity Mortality Table in its benefit valuation and asset allocation regulations (29 CFR parts 4044 and 4281).

In May 1995, the Society of Actuaries Group Annuity Valuation Table Task Force issued a report that recommends new mortality tables for a new Group Annuity Reserve Valuation Standard and a new Group Annuity Mortality Valuation Standard. In December 1996, the National Association of Insurance Commissioners adopted the new tables as models for determining reserve liabilities for group annuities. The PBGC is considering incorporating these tables into its regulations and making other modifications.

Summary of Legal Basis:

The PBGC has the authority to issue rules and regulations necessary to carry out the purposes of title IV of ERISA.

Alternatives:

Not yet determined.

Anticipated Cost and Benefits:

Cost estimates are not yet available. However, the PBGC expects that this regulation will not have a material effect on costs.

Risks:

Not applicable.

Timetable:

| Action | Date | FR Cite |
|-----------------------------|----------|-------------|
| ANPRM | 03/19/97 | 62 FR 12982 |
| ANPRM Comment Period End | 05/19/97 | |
| NPRM | 07/00/02 | |
| NPRM Comment Period End | 09/00/02 | |

Regulatory Flexibility Analysis Required:

No

Government Levels Affected:

None

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