Monday, July 27, 2020

PBGC Clarifies Calculations

In July, the PBGC published a set of questions and answers about how contributions made by plan sponsors taking advantage of the CARES Act funding relief will factor into the determination of the 2019 plan year variable rate premium (VRP). Read on to find out what plan sponsors should consider and when plan administrators need to submit their PBGC filings.

On July 20, the Pension Benefit Guaranty Corporation (PBGC) published clarifying questions and answers addressing how contributions made by plan sponsors taking advantage of the funding relief provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act will factor into the determination of the 2019 plan year variable rate premium (VRP).

The CARES Act delayed minimum required contributions for the 2019 plan year, including quarterly contributions, until January 1, 2021. However, plan administrators need to submit their PBGC filings on or before October 15, 2020. Because 29 CFR 4006.4(c) requires the plan to receive previous-year contributions prior to the premium filing, contributions made after the submission will not factor into the VRP determination. Note that plan administrators may not amend their premium filings to reflect previous-year contributions regardless of the original submission date, even if it’s filed before October 15, 2020.

For most plan sponsors required to pay a VRP, additional qualified contributions will lower the premium amount due to the PBGC. As a point of reference, the 2019 plan year VRP is $43 per $1,000 of unfunded vested benefits, subject to a cap.

Plan sponsors contemplating taking advantage of the funding relief provided by the CARES Act should consider whether they benefit (by reducing VRP premiums paid) from completing any intended 2019 plan year contributions by October 15, 2020. Without the CARES Act, September 15 would have represented the last day for making contributions that would factor into the VRP calculation.

We recommend that plan sponsors inquire with their plan actuaries to assist in the decision-making process, as the funding status of the plan will affect the potential of contributions to reduce PBGC premiums. The full Q&A also includes specifics regarding the impact of the CARES Act and the COVID-19 pandemic on distressed terminations and plans. Click here to read the full Q&A.

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