

CRS Report for Congress

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Budget Reconciliation and the PBGC

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Summary

The Pension Benefit Guaranty Corporation (PBGC) posted a deficit of \$23.5 billion as of the latest reporting period, and the deficit is expected to grow further. Major bills introduced in the 109th Congress to reform funding rules for the defined benefit pension system and to raise PBGC premiums include H.R. 2830 and S. 1783. Neither has yet passed the full House or Senate. PBGC premiums are an important source of revenue for meeting the budget reconciliation targets. The House Budget Committee has reported out H.R. 4241, a budget reconciliation package that would raise PBGC premiums. The Senate has passed S. 1932, a budget reconciliation package that also contains PBGC premium increases. The House and Senate budget reconciliation proposals include different provisions for increasing PBGC premiums that would raise revenues of \$6.2 billion and \$6.7 billion, respectively, over five years. The House Republican leaders are attempting to bring the budget reconciliation bill to the floor in the near future. Once the House passes its budget reconciliation bill, the House and Senate will conference in the remaining weeks of 2005 to try to pass a final bill.

This report will be updated as legislative developments warrant.

Role of the PBGC in the Budget Reconciliation Process

The Pension Benefit Guaranty Corporation (PBGC), the federal corporation that insures the pension benefits of participants in most private sector-defined benefit pension plans, posted deficits of \$23.3 billion and \$236 million for its single-employer and multiemployer programs, respectively, as of September 30, 2004, the latest reporting date. Since September 2001, the PBGC has posted higher deficits each year; the PBGC deficit as of September 30, 2005, is expected to increase.¹

In April 2005, the House and Senate adopted a joint budget resolution that provided the House Education and Workforce Committee and the Senate Committee on Health,

¹ For additional information, see CRS Report RL32702, *Can the Pension Benefit Guaranty Corporation Be Restored to Financial Health?* and CRS Report RL32991, *Defined Benefit Pension Reform for Single-Employer Plans*, by Neela K. Ranade.

Education, Labor, and Pensions (HELP Committee) with target-savings numbers for programs under their jurisdiction. A major program that falls under the purview of the two committees is private sector pensions. Premiums that private sector employers pay the PBGC are an important source of revenues for meeting budget reconciliation targets. Because the PBGC's premiums are recorded as offsetting collections to a mandatory spending account, an increase in premium collections is reflected in the budget as a decrease in direct spending.

House Budget Reconciliation Measure. The House Budget Committee reported out on November 2, 2005, H.R. 4241, the Deficit Reduction Act of 2005, its budget reconciliation bill that saves about \$54 billion over five years. The bill includes the following provisions with respect to PBGC premiums developed by the House Education and Workforce Committee, expected to raise revenues of \$6.2 billion² over five years:

- Flat-rate premiums for PBGC's single-employer program would be increased from the current \$19 per participant to \$30 per participant in 2006. The rate would thereafter increase at the rate of wage inflation. PBGC would be given the power to increase premiums by an additional 20% per year, although Congress would be able to reject any of the increases sought by the PBGC. This provision is estimated to raise about \$5.2 billion in additional resources for the PBGC over five years. Note that in developing the cost impact of \$5.2 billion, the Congressional Budget Office (CBO) assumed that the full 20% premium increase would be made each year.
- A new termination premium would be introduced to be paid when a bankrupt company engages in a distress or involuntary termination of its pension plan, resulting in the PBGC taking over the plan. The premium would be \$1,250 per participant, payable for three years following the company's emergence from bankruptcy. Under current law, an employer ceases paying premiums to the PBGC when its plan is terminated. The new termination premium is estimated to generate savings of approximately \$1 billion over five years.

Senate Budget Reconciliation Measure. The Senate passed on November 3, 2005, S. 1932, the Deficit Reduction Omnibus Reconciliation Act of 2005, which achieves five-year savings of about \$35 billion. S. 1932 incorporates the Senate HELP Committee's proposals on pensions. Under the FY2006 Budget Resolution, the HELP Committee was required to find savings in pension policy of \$6.7 billion over five years.³ To satisfy that requirement, the legislation makes three changes to current law:

² Cost impact estimates were determined by the Congressional Budget Office (CBO) and can be obtained at [<http://www.cbo.gov/ftpdocs/68xx/doc6827/EdWrecon.pdf>].

³ The cost impact of the PBGC premium provisions was developed by CBO and can be accessed at [<http://www.cbo.gov/ftpdocs/68xx/doc6809/HELPrecon.pdf>].

- The bill increases the single-employer flat-rate premium to \$46.75 per participant and indexes it for wage inflation beginning in 2007. This provision is expected to produce savings of \$5.4 billion over five years.
- The PBGC premium for multiemployer plans increases to \$8 per participant, indexed for wage inflation, beginning in 2007. The premium is currently \$2.60 per plan participant. This provision is projected to raise \$300 million over five years.
- As in the House Education and Workforce Committee proposal, a new termination premium is to be paid when a bankrupt company engages in a distress or involuntary termination of its pension plan, resulting in the PBGC taking over the plan. The premium is established at \$1,250 per participant and would be payable for three years following the company's emergence from bankruptcy. This provision is estimated to generate savings of approximately \$1 billion over five years.

Next Steps. The Deficit Reduction Act of 2005, passed by the House Budget Committee, may go to the House floor for a vote in the near future. Once the House passes its budget reconciliation bill, lawmakers will conference to try to pass a final bill. Both the House and Senate Committees have stated that they have resorted reluctantly to the large increases in PBGC premiums incorporated in the budget reconciliation proposals. Efforts continue to pass H.R. 2830 and S. 1783 through the House and Senate, respectively. If broad legislation that strengthens pension funding passes, there may not be the need to increase PBGC premiums to the extent sought by the budget reconciliation proposals. Both the House Education and Workforce Committee proposal and S. 1932 contain language stating that if comprehensive pension reform legislation is enacted in 2005, it would take precedence over PBGC premium provisions in the budget package.

Pension Reform in the 109th Congress

With the goals of strengthening the funding of defined benefit pension plans and improving the solvency of the PBGC, several bills were approved by House and Senate committees in the 109th Congress. These bills include provisions to raise PBGC premiums, but generally not to the extent proposed by the budget reconciliation proposals. The bills also would tighten funding rules, resulting in higher pension funding requirements for many employers. However, the full House or Senate has not yet voted on any of the bills.

H.R. 2830, the Pension Protection Act of 2005, was reported out by the House Education and Workforce Committee on September 22, 2005, and referred to the House Ways and Means Committee.⁴ On November 9, 2005, the Ways and Means Committee approved a modified version of H.R. 2830. The bills passed by the Education and Workforce Committee and the Ways and Means Committee generally match, as they both apply to defined benefit pension plans. However, under the Ways and Means Committee version, the tougher funding requirements for defined benefit pension plans would

⁴ For additional information, see CRS Report RS22179, *H.R. 2830: The Pension Protection Act of 2005*, by Patrick Purcell.

become effective a year later, in 2007, rather than in 2006, as required under the House Education and Workforce Committee version. The Ways and Means Committee version of H.R. 2830 also adds a provision that imposes a fee of \$1,250 per participant per year for employers that terminate their pension plans in bankruptcy. The fee would apply for three years after the employer emerges from bankruptcy. The budget reconciliation bills passed by the Senate and under consideration by the House also contain the \$1,250 per participant provision.

In the Senate, S. 1783, the Pension Security and Transparency Act of 2005, was introduced on September 28, 2005. The bill combines provisions of S. 219, the National Employee Savings and Trust Equity Guarantee Act, passed by the Senate Finance Committee on July 26, 2005, and the Defined Benefit Security Act, passed by the Senate HELP Committee on September 8, 2005.⁵ However, S. 1783 has been stalled in the Senate due to objections raised by Senators Dewine and Mikulski over language in the bill that would use firms' adverse credit ratings as a factor in determining pension plan funding.

With limited time remaining and many pressing matters on the congressional agenda, the passage of legislation regarding broad pension reform are uncertain in 2005. Failure to pass comprehensive pension reform in 2005 could result in a reversion to the lower 30-year Treasury rate for funding pension plans and restitution of deficit reduction contributions (DRCs). The Pension Funding Equity Act (H.R. 3108), passed in 2004, replaced the 30-year Treasury bond rate with a higher composite corporate bond rate as the benchmark for defined benefit plan funding calculations. The act also allowed companies in certain industries to postpone DRCs. These provisions will expire on December 31, 2005.⁶

⁵ For additional information, see CRS Report RS22221, *S. 1783: The Pension Security and Transparency Act of 2005*, by Patrick Purcell.

⁶ For additional information, see CRS Report RS21717, *H.R. 3108: The Pension Funding Equity Act*, by Patrick Purcell and Paul Graney.