FINDLEY perspective

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Quarterly Contributions: To Delay or Not to Delay. PBGC Premium Savings Either Way

Looking for the silver lining in the clouds hanging over 2020? Through the CARES Act, defined benefit pension plan sponsors have a unique opportunity for significant savings in Pension Benefit Guaranty Corporation (PBGC) premiums. For plan sponsors who pay a PBGC variable premium based on their defined benefit plan's unfunded liability, there are two options for premium savings – for those who have continued to make quarterly payments for the 2020 plan year, and for plan sponsors who expect to delay all 2020 contributions until December 31, 2020.

Savings for Continuing Quarterly Contributions

Plan sponsors who have continued their 2020 plan year contributions will earn PBGC premium savings by reassigning the 2020 quarterly contributions to the 2019 plan year. Typically, this reassignment is not permitted unless there is an acceleration of the final 2019 contribution (due September 15, 2020 (calendar year)) to the first quarterly due date of 2020 (April 15, 2020 (calendar year)).

The CARES (Coronavirus Aid, Relief, and Economic Security) Act states that 2020 quarterly contribution funding deadlines for defined benefit plans have been extended to December 31, 2020. As a result, once the final 2019 plan year contribution is made, the 2020 quarterly contributions can be reassigned to the 2019 plan year. The savings to the variable rate premium is approximately 4.3 percent of the amount of contributions reassigned to the 2019 plan year.[1] According to recent PBGC guidance, only contributions made by the PBGC premium filing due date (October 15, 2020) count toward the 2020 variable rate premium. In order to take advantage of this strategy, defined benefit plan sponsors will need to make the final 2019 plan year contribution by October 15, 2020.

Savings through Delaying 2020 Contributions

A PBGC premium savings option also is available for plan sponsors who have planned to delay all 2020 contributions until December 31, 2020 – if they are willing to accelerate all of the delayed contributions by two and a half months, to October 15, 2020. With this option, the actual contribution amount will be reduced because the plan sponsor is making the payment early – nearly 12 weeks prior to December 31, 2020.

The savings to the variable rate premium, in this case, would be about 4.3 percent of the amount of contributions reassigned to the 2019 plan year.

Choose a Strategy and Save

For example, assume that a plan sponsor has three required 2020 quarterly payments of $250,000. Implementing one of the strategies could bring nearly $32,000 in PBGC premium savings. There is some administrative work required to take advantage of these opportunities, but it's not overwhelming and likely worth the effort.

The calculation to determine the amount of actual contributions and credit balance elections is complex and differs for each plan. To learn more about how your company's defined benefit pension plan's variable PBGC premium could be affected by either of these strategies, contact Larry Scherer at *Larry.Scherer@Findley.com*

Note: This article refers to dates for a calendar plan year, but the strategies also apply to non-calendar plan years.

[1] Although the PBGC variable premium rate for 2020 is 4.5 percent of the unfunded pension plan's liability, the premium saving is approximately 4.3 percent due to interest discounting of contributions.