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Budget Act Raises PBGC Premiums; Revises Mortality Table and Interest Rules; Fixes Part B Premiums

Today the president signed the Bipartisan Budget Act of 2015, Congress' response to two looming problems: the debt ceiling and funding the federal government. Treasury Secretary Jacob Lew warned that on November 3, or shortly thereafter, the federal government would be close to out of cash and unable to borrow to pay its debts. Congress needed to act quickly to avert a government shutdown. And, in the spirit of cooperation and compromise, Congress needed to raise revenue to offset costs created by the Act.

To raise revenue, the Act increases single-employer defined benefit plan PBGC premiums. It also modifies the rules for setting pension plan mortality assumptions and addresses the Medicare Part B premium problem created by the lack of a Social Security cost-of-living increase in 2016.

PBGC Premium Increase

Building on the previous rate hikes for single-employer pension plans under the Bipartisan Budget Act of 2013 (see our December 27, 2013 *For Your Information*), the Bipartisan Budget Act of 2015 (Act) increases flat-rate and variable-rate premiums for single-employer pension plans beginning in 2017. The revised rates under the Act are highlighted in the following table.

Year	Per-Participant Flat Rate	Variable Rate per $1,000 UVBs	Variable Rate Per-Participant Cap
2015	$ 57	$ 24	$ 418
2016	$ 64	$ 30	$ 500
2017	$ 69	$ 30 indexed plus $3	$ 500 indexed
2018	$ 74	2017 rate indexed plus $4	$ 500 indexed
2019	$ 80	2018 rate indexed plus $4	$ 500 indexed
After 2019	$ 80 indexed	2019 rate indexed	$ 500 indexed

In addition to raising the single-employer rates, the new law accelerates the premium due date by one month for 2025. Calendar year plans, for example, will owe premiums in September 2025 rather than October 2025. This change aims to add the premium revenue for 2025 to the current 10-year federal budget window.

Mortality Table Modifications

For various funding purposes and premium calculations — but not for lump sums — the Act allows flexibility for setting plan mortality assumptions by allowing sponsors to use their own plan's actual experience if there is sufficient credible information in accordance with established actuarial credibility theory. This change is effective for plan years beginning after December 31, 2015.

Funding Interest Rate Corridor Extensions

The Act further extends the Moving Ahead for Progress in the 21st Century Act (MAP-21) interest rate corridors that had been extended by the Highway and Transportation Funding Act of 2014 (HATFA). The corridor remains at 10 percent through 2020. It then increases by 5 percent per year through 2024, at which point it is fixed at 30 percent for future years. DOL is instructed to modify the Annual Funding Notice requirements accordingly.

The progression of the changes to the funding corridor range is summarized in this table.

<table>
<tr><th>Plan Year Beginning in</th><th>MAP-21 Corridor Range</th><th>HATFA Corridor Range</th><th>Budget Act Corridor Range</th></tr>
<tr><td>2012</td><td>90 to 110%</td><td rowspan="6">90 to 110%</td><td rowspan="9">90 to 110%</td></tr>
<tr><td>2013</td><td>85 to 115%</td></tr>
<tr><td>2014</td><td>80 to 120%</td></tr>
<tr><td>2015</td><td>75 to 125%</td></tr>
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<tr><td>2021</td><td rowspan="4">70 to 130%</td><td>85 to 115%</td></tr>
<tr><td>2022</td><td></td><td>80 to 120%</td></tr>
<tr><td>2023</td><td></td><td>75 to 125%</td></tr>
<tr><td>2024 and later</td><td></td><td>70 to 130%</td></tr>
</table>

Comment: In addition to raising revenue by allowing for smaller contributions and thus smaller deductions, the disparity between liabilities for minimum funding versus liabilities for variable rate premiums (that do not use the stabilized interest rates) further raises revenue by increasing variable rate premiums when employers suppress contributions and increase unfunded liabilities.

Medicare Part B Premiums

The Act caps the 2016 monthly premiums for millions of Medicare Part B beneficiaries, protecting them from a projected 52% increase. The projected spike in premiums was a result of the continued escalation of Medicare health costs, no cost-of-living increases in 2016 for Social Security recipients, and the so-called "hold harmless" provision under federal law.

Last month, the Social Security Administration announced that Social Security recipients would receive no cost-of-living (COLA) increase in 2016. (See our October 15, 2015 *For Your Information*.) While the overall CPI did not increase, Medicare health costs continued to escalate in the past year, and an increase in the standard Medicare Part B premium was anticipated from $104.90 in 2015 to $120.00 in 2016.

However, federal law includes a "hold harmless" provision that protects about 70% of Social Security recipients from an increase in Part B premiums that would effectively reduce their monthly Social Security payment. (Most Medicare recipients have their premiums deducted from their Social Security checks.) Thus, since there is no COLA in 2016, Part B premiums cannot increase from the $104.90 for the group protected by the hold harmless provision. This means that the remaining 30% of Social Security recipients would have to bear the full brunt of the increase in Medicare costs. The Centers for Medicare & Medicaid Services (CMS) has projected a 52% increase in the standard Part B premium — from $104.90 to $159.30 — for the group not protected by the hold harmless provision.

To avert this huge increase, the Budget Act caps the 2016 standard Part B premium at $120.00 for those beneficiaries not protected by the hold harmless provision. To cover the loss of revenue for the Medicare fund, there will be a loan from the Federal Treasury to the Supplemental Medical Insurance Trust Fund. These Medicare beneficiaries will pay back this loan beginning in 2016 with an additional $3.00 a month premium, for a total 2016 monthly premium of $123.00. Medicare beneficiaries who pay higher income-based Part B contributions will pay more than $3.00, in proportion to their premiums under current law. CMS has not yet released the 2016 Part B premium amounts for higher-income beneficiaries.

ACA Automatic Enrollment Provision

The Act also eliminates the requirement for employers with more than 200 full-time employees to enroll new full-time employees automatically into health plans. Specifically, the Act repeals ACA provisions that amended the Fair Labor Standards Act and would have required employers to comply with the automatic enrollment rules upon issuance of final rules.

> **Comment.** Because the automatic enrollment rules never went into effect, other than taking this provision off a "watch" list, employers need not take any action because of this repeal.

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