

PBGC Proposes Reduced Late Premium Filing Penalties

PBGC is proposing to cut their filing penalties for late payment of annual PBGC premiums in half and slice them even further for plan sponsors who have a history of timely payment.

Background

PBGC-covered defined benefit plans are obligated to pay annual premiums within 9½ months after the beginning of each plan year (October 15 for calendar year plans). Currently, two levels of penalty apply to late payments. For premium underpayments corrected before PBGC notice of an underpayment, the penalty is 1% of the amount of the late payment per month (with a 50% cap). After PBGC provides notice, the penalty is 5% per month (capped at 100%). The current penalty is subject to a floor of \$25 (or the amount of premium paid late, if less).

Reduced Penalties Proposed with Adjustments for Good History

PBGC proposed [revised regulations](#) that would cut the rates and caps in half (to ½% with a 25% cap and 2½% with a 50% cap, respectively). The floor would be eliminated. The proposed changes would also add a new 80% waiver of the higher penalty applicable when PBGC provides notice for plans with good compliance history. The resulting penalty would be ½% per month with a 25% cap — the same rate applied for plan sponsors who self-correct before PBGC issues a notice.

Eligibility for the 80% waiver would require satisfaction of two conditions:

- The plan must have a five-year record of premium compliance — timely payment or penalties fully waived.
- The premium shortfall would need to be corrected promptly — within 30 days of PBGC's notification.

Plans in existence for fewer than five years would be judged on all coverage years.

The proposal would not affect penalties for late payment of the termination premium payment.

Effective Date

Under the proposed change, penalties would be modified for late premium payments for plan years beginning after 2015. Comments on the proposed rule are due June 27, 2016.

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