Increasing Pension Premiums:

The Impact on Jobs and Economic Growth

Executive Overview — May 2014

"Premium hikes (aka tax increases) were delivered in a one-two punch: $8.9 billion in 2012 and another $7.9 billion in 2013."

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Overview

Employers that sponsor pension plans for their workers are feeling the squeeze from nearly $17 billion in increased premiums they will pay to the Pension Benefit Guaranty Corporation (PBGC) to insure their plans over the next 10 years. The premium hikes (aka tax increases) were delivered in a one-two punch: $8.9 billion in 2012 and another $7.9 billion in 2013. As if these additional costs were not enough, the Administration is looking at another round by giving the PBGC authority to increase premiums by another $25 billion.[1] *Increasing Pension Premiums: The Impact on Jobs and Economic Growth* takes a look at how these increased costs on our nation's employers impact their businesses, jobs and economic growth. Specific findings include the following:

- The PBGC's proposed new authority to raise premiums, piled on top of the two recent increases, would translate into a cumulative **$51.4 billion** hit to the U.S. economy over 11 years.
- PBGC premiums would cost employers an average of 42,000 jobs per year, peaking at a loss of more than 67,000 jobs in 2017.
- **Manufacturers would lose nearly 7,500 jobs in 2017 alone,** and social services and nonprofits would face the loss of 4,700 jobs as a result of higher PBGC premiums.
- **Congress could save an average of 24,500 jobs per year by rejecting additional premium hikes,** such as the proposal to expand the PBGC's authority to set premiums.
- Because the PBGC premium hikes push up consumer inflation and decrease production, the **average household would lose cumulative buying power of $721** in 2012 dollars over 11 years.

Background

Tens of thousands of employers provide defined benefit (DB) pension plans to millions of workers across the United States. DB plans, also known as traditional pension plans, differ from other retirement plans in that they pay a specific monthly benefit at retirement, providing certainty for employees in return for many dedicated years of service to the company. Unfortunately, maintaining a DB plan also comes with significant administrative complexity and costs for employers. The prime example of the substantial cost associated with these plans is the premium employers must pay to the agency that insures DB plans: the PBGC.

Congress sets the PBGC premium levels that plan sponsors must pay. Recently enacted legislation increased the premiums paid by single-employer plan sponsors in 2012[2] by $8.9 billion over 10 years and in 2013[3] by $7.9 billion over 10 years. These back-to-back increases essentially double the flat-rate premium from $35 per participant in 2012 to $64 per participant in 2016, and triple the variable-rate premium from $9 per $1,000 of underfunding in 2012 to $29 per $1,000 of underfunding in 2016. Since every company has a different number of plan participants and funding level, PBGC premium payments vary for each company. Yet, *all* employers that provide DB pension plans must pay PBGC premiums—effectively, a tax on plan sponsors.

The Administration's budget proposal for fiscal year (FY) 2014 would further increase this tax by allowing the PBGC to set its own premiums, raising $25 billion in revenue over 10 years. Taken together, the $8.9 billion, $7.9 billion and $25 billion increase in PBGC premiums would translate into millions of dollars in additional costs for companies that offer pension benefits to their employees. *Increasing Pension Premiums: The Impact on Jobs and Economic Growth* quantifies the effect premium increases have on employers, jobs, personal income and economic growth.

[1] The Administration's fiscal year 2014 budget, released in 2013.
[2] MAP-21 highway law (P.L. 112-141)
[3] Bipartisan Budget Act of 2013 (P.L. 113-67)

> **"Adding the Administration's proposal to the recent premium hikes equates to a potential loss of 42,000 jobs per year on average."**

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Impact on Jobs

Discussions by policymakers about further increasing PBGC premiums, which are already indexed to inflation and have been increased significantly twice in the past two years, are occurring more and more frequently. Employers know firsthand that uncertainty hampers investment, endangers jobs and constrains economic growth. This study shows that further premium increases, when added to the multibillion dollar increases enacted in 2012 and 2013, would have a further negative impact on jobs and the economy.

The PBGC premium hikes enacted in 2012 and 2013 nearly double the flat-rate per-participant premium employers pay to the PBGC and triple the variable-rate premium. Before the recent PBGC premium increases, employers already were paying more than $2.64 billion in premiums annually for the pension benefits they voluntarily provide to more than 30 million participants. Every additional dollar that employers must pay to the PBGC is one less dollar that can be used to fund participant benefits, expand their businesses and create jobs.

Adding the Administration's proposal to the recent premium hikes equates to a potential loss of 42,000 jobs per year on average, peaking at 67,000 jobs in 2017. Companies must budget and plan in advance for cost increases, and in many cases, a PBGC tax hike means less money for other investments. As a large U.S.-based global manufacturing company and member of the Pension Coalition, a group of organizations providing retirement benefits to millions of workers and retirees, explains:

> *"For us, it's very simple. Every dollar we spend on PBGC premiums (about $3.4 million in 2013) means we have a dollar less to spend somewhere else. For a capital-intensive business like ours, this means we won't be able to create jobs or make investments in equipment and facilities (an indirect way of creating jobs) with that money."*

As illustrated in the table below, many sectors of the economy, ranging from retail and wholesale trade to health care to nonprofits, would face potential significant job loss. The manufacturing sector, which pays the largest share of PBGC premiums—48.1 percent or $1.073 billion of the total premiums paid to the PBGC in 2010—would be hit particularly hard, with a potential loss of nearly 7,500 jobs in 2017.

While the 2012 and 2013 PBGC premium hikes have a significant impact on job creators, an average of 24,500 jobs could be saved per year—more than 37,000 in 2017 alone—if Congress does not enact additional premium hikes, such as the proposal found in the Administration's FY 2014 budget.

Table 1. Employment Effects by Industry—Administration Budget Case (Thousands of Jobs per Year)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Agriculture, Forestry and Fisheries	-0.04	-0.17	-0.54	-0.66	-0.64	-0.59	-0.53	-0.50	-0.46	-0.41	-0.36
Mining	-0.01	-0.04	-0.13	-0.16	-0.16	-0.14	-0.12	-0.10	-0.40	-0.09	-0.08
Construction	-0.20	-1.20	-4.22	-8.08	-9.24	-8.18	-5.36	-3.00	-1.82	-1.54	-1.60
Manufacturing	**-0.29**	**-1.37**	**-4.53**	**-7.09**	**-7.47**	**-6.50**	**-5.17**	**-4.29**	**-3.95**	**-3.79**	**-3.64**
Nondurables	-0.13	-0.56	-1.83	-2.53	-2.60	-2.35	-2.05	-1.87	-1.75	-1.61	-1.47
Durables Materials and Products	-0.06	-0.31	-1.04	-1.65	-1.74	-1.49	-1.13	-0.86	-0.75	-0.71	-0.70
Nonelectrical Machinery	-0.02	-0.12	-0.44	-0.95	-1.08	-0.89	-0.60	-0.40	-0.36	-0.40	-0.43
Electrical Machinery	-0.02	-0.07	-0.24	-0.40	-0.40	-0.32	-0.24	-0.19	-0.18	-0.18	-0.18
Transportation Equipment	-0.04	-0.20	-0.64	-0.98	-1.04	-0.90	-0.72	-0.61	-0.57	-0.56	-0.55
Instruments	-0.01	-0.05	-0.18	-0.34	-0.36	-0.32	-0.24	-0.20	-0.18	-0.19	-0.19
Miscellaneous Manufacturing	-0.01	-0.05	-0.16	-0.25	-0.25	-0.22	-0.19	-0.16	-0.15	-0.14	-0.13
Transportation	-0.15	-0.64	-2.06	-2.59	-2.70	-2.43	-2.14	-2.00	-1.90	-1.84	-1.76
Utilities	-0.03	-0.12	-0.39	-0.49	-0.60	-0.58	-0.50	-0.43	-0.39	-0.37	-0.37
Trade	-1.31	-5.36	-16.48	-18.77	-17.96	-15.43	-13.27	-12.27	-11.33	-10.23	-9.18
Finance, Insurance and Real Estate	-0.26	-1.05	-3.26	-3.71	-3.76	-3.35	-3.01	-2.84	-2.66	-2.44	-2.22
Education, Social Services, NPO	-0.24	-1.15	-3.63	-4.48	-4.70	-4.16	-3.45	-3.11	-2.76	-2.40	-2.16
Other Services	-1.20	-5.06	-16.03	-19.89	-19.98	-17.48	-15.05	-14.00	-13.45	-12.85	-11.96
Total Jobs	**-3.73**	**-16.16**	**-51.27**	**-65.92**	**-67.20**	**-58.81**	**-48.59**	**-42.55**	**-38.80**	**-35.95**	**-33.34**

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> **"The PBGC premium increases enacted in 2012 and 2013 are already having damaging effects."**

Economic Impact

PBGC premiums are effectively a tax on plan sponsors that maintain DB plans to boost workers' retirement security. Only the employers that voluntarily provide DB pension plans face this tax burden, but their weight creates a ripple effect throughout the economy. A Midwest manufacturer explains:

> *"PBGC premiums are even more insidious than an income tax because you pay them whether you are profitable or not, and in heavy manufacturing, which is the first to go into a recession and the last to come out, this is very problematic in the extremely slow recovery we are enduring. We've spent roughly $100 million in premiums over the past decade—money that does not go to our retirees nor is it spent with the normal oversight that taxpayer dollars are spent. The most recent premium increase in the Ryan–Murray [House Budget Committee Chairman Paul Ryan (R-WI) and Senate Budget Committee Chairman Patty Murray (D-WA)] budget roughly doubles our premiums from $20 million to $40 million over the next four years. Our CEO describes this as equivalent to the cost of building a new R&D facility, as our current facility pre-dates World War II and could use some updates. Those are decisions he can no longer make, though, since it is PBGC premiums first and any other needs to the business second."*

Clearly, this extra tax burden will increase production costs for affected firms directly. In some cases, firms may have to pass those costs onto their customers. Where those customers are other firms, the initial cost increases cascade through the supply chain to reduce the competitiveness of the economy in general. A manufacturing company based in the Midwest with more than 200,000 employees describes this impact:

> *"Company X is facing more competition than it probably has faced in the past 75 years. To stay competitive, Company X invests billions of dollars in plants, machinery, tooling and R&D each year. The increase in PBGC premiums may mean less money is available for these critical investments, which could impact Company X's competitiveness."*

Reflecting the competitive impacts of the tax increases, the export volume under the current and proposed premium increases would be reduced by a cumulative $10.6 billion over the 11-year horizon.

Because the PBGC premium hikes push up consumer inflation as well as decrease production, real personal income would be impacted significantly, with the average household losing cumulative buying power of $721 in 2012 dollars. This means less spending money in the pockets of consumers and a drain on the U.S. economy.

On a broader note, the Administration's PBGC budget proposal, together with the two previous increases, would reduce GDP by four basis points from 2016 to 2017, with a cumulative hit of $51.4 billion to the U.S. economy from 2013 to 2023.

Conclusion

The PBGC premium increases enacted in 2012 and 2013 are already having damaging effects, but further PBGC premium increases, such as the proposal found in the Administration's budget, will hurt employers, cost jobs, reduce personal income and harm economic growth. Raising PBGC premiums amounts to a tax on employers that maintain DB plans to boost workers' retirement security because only the employers that voluntarily provide DB pension plans face this burden. As a result, companies may be forced to pull back on investments in participant benefits, business expansion, job creation and economic growth. Congress can stop the bleeding and protect job creators, workers and their retirement security by rejecting any further PBGC premium hikes.

To view the full report, please visit www.nam.org/pensionpremiums2014.

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