

LAW & POLICY GROUP

GRIST**MERCER URGES PBGC TO CONSIDER ALTERNATIVES TO OLD LUMP SUM RATES**

*By Mercer's Margaret Berger and Geoff Manville
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While the suggested interest rate changes in PBGC's September [proposal](#) to update actuarial assumptions for calculating lump sums are generally helpful, a Nov. 29 comment [letter](#) from Mercer cautions against using fixed rates. Fixed rates could lead to unintended subsidies in benefits paid from single-employer pension plans if general interest rates rise, Mercer told the agency.

Rather than using fixed rates, PBGC should "consider a basis that continues to adapt to changes in the interest rate environment," said Bruce Cadenhead, Global Chief Actuary for Mercer's Wealth business. He noted that other rates are readily available, depending on the PBGC's objectives.

Cadenhead recommended that PBGC defer the effective rate of the final regulation long enough to give plans and participants time to "understand the impact of the change and make informed decisions." He also cautioned that some plans could face potential anti-cutback rule violations, absent relief from the IRS.

PBGC uses mortality assumptions and interest rates to determine *de minimis* lump sums for terminated defined benefit (DB) plans under ERISA Section 4022. Although DB plans now must use interest rates specified under Internal Revenue Code Section 417(e) to determine minimum lump sums, many plans have continued to use the PBGC basis for other purposes — such as to determine an alternative lump sum — if the PBGC basis would produce a better result than the 417(e) basis. PBGC has proposed to stop monthly publication of the historical rates and replace them with one final set of "legacy" rates, including an immediate rate of 1.5% and deferred rates of 4.0%.

RELATED RESOURCES

Non-Mercer Resource

- [Proposed PBGC Rule on Lump Sum Payment Assumptions](#) (Federal Register, Sept. 30, 2019)

Mercer Law & Policy Resource

- [PBGC Proposal Would End Publication of Old Lump Sum Rates](#) (Sept. 30, 2019)

Other Mercer Resource

- [Mercer's Comment Letter on PBGC Proposal](#) (PBGC, Nov. 29, 2019)

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