PBGC Issues Final 4010 Reporting Rule

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– Cowden Associates, Inc.
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On March 22′ 2016, the PBGC published a final rule amending prior regulations related to Annual Financial and Actuarial Information Reporting, often referred to as 4010 reporting. The final rule has made some significant changes to prior reporting rules, and extends the reporting requirement to more plans where organizations have at least 500 participants in defined benefit plans.

Reporting is generally required on a controlled group basis if:

1) There is any defined benefit plan with a Funding Target Attainment Percentage (FTAP) less than 80%, and
2) Total underfunding of greater than $15 million in the aggregate for all defined benefit plans in the controlled group.

Under prior rules, the 80% test was performed without reflecting pension funding stabilization legislation, and the $15 million aggregate test was performed using interest rates modified by stabilization.

Under the revised rules, the 80% FTAP test remains unchanged, but the $15 million aggregate underfunding test will be required to use interest rates that do not reflect pension funding stabilization. At present, and in near future, there is a large spread between these two sets of interest rates, and the new $15 million test will be much harder to pass for sponsors of larger plans since the interest rates without stabilization are much lower.

In addition, the PBGC has provided a waiver for small controlled groups such that 4010 reporting will not be required if the count of defined benefit plan participants in the controlled group is under 500, regardless of the amount of underfunding.

These final rules go into effect for information years (generally, a controlled group's fiscal year) beginning after December 31, 2015, meaning the earliest deadline any group would be required to report under the new rules is April 17, 2017.

4010 reporting requirements are significant and can be costly and time consuming for both sponsors and their advisors, and unfortunately, the reporting provides no benefit to the sponsor. Sponsors of plans where 4010 reporting is required may wish to work with their actuary or other plan advisors to determine whether or not there are additional contribution scenarios that may be worth examining to avoid the reporting requirement. This may also include participant reduction strategies such as lump sum windows or annuity purchases for plans in controlled groups close to the 500 participant threshold.

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