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PBGC

Credit Quality Declines Won't Trigger Pension Insurer Review

Pension plan sponsors needn't worry that a drop in their credit quality will trigger a review under a program used by the federal pension insurer to track plans that may be in danger of failing.

That's according to Pension Benefit Guaranty Corporation guidance in the form of questions and answers issued May 10 on the agency's Early Warning Program. The PBGC said it was clarifying that it hasn't expanded the program or changed the monitoring criteria or the processes involved.

''The new guidance is helpful in that it makes clear that a deterioration in credit quality isn't an independent basis for opening an Early Warning Program case,'' Harold J. Ashner, a partner with Keightley & Ashner LLP, told Bloomberg BNA. Ashner formerly served as the PBGC's assistant general counsel for legislation and regulations.

Under that program, the PBGC seeks to identify and deal with matters affecting plan sponsors that increase risk to the viability of plans and to the pension insurance system.

When a sponsor's transaction merits a review, the PBGC generally considers the sponsor's credit ratings and other information, such as plan funding, to determine whether pensions are at greater risk, the agency said.

In a separate update issued in conjunction with the questions and answers, the PBGC removed two items that were listed in its guidance in December as possible triggers for the agency's attention under the program: a significant drop in a sponsor's credit rating and a downward trend of a sponsor's cash flow or other financial factors.

Ashner and other sponsor advocates waived a red flag at the time and said that neither of those circumstances involved corporate transactions and may have been an expansion of the program that wasn't anticipated by Congress under the Employee Retirement Income Security Act.

Groups representing plan sponsors have also expressed concern that an overly broad application of the PBGC's program could help convince employers to exit their plans.

Jason Hammersla, communications director for the American Benefits Council, told Bloomberg BNA in an email that his organization is reviewing the latest guidance carefully to see if it helps address such concerns. ABC represents plan sponsors of Fortune 500 companies.

By David B. Brandolph

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