



## PBGC Will Continue to Publish Lump Sum Interest Rates

The Uruguay Round Agreements Act (also referred to as the General Agreement on Tariffs and Trade, or "GATT") of 1994, changed the way defined benefit plans must calculate the lump sum value of a participant's vested accrued benefit. Previously, plans generally had to use an interest rate no greater than the rate used by the Pension Benefit Guaranty Corporation (PBGC) to determine present value at plan termination (the "PBGC rate"). However, under GATT, this present value cannot be less than the value determined by using an annual interest rate equal to the yield on 30-year Treasury securities.

The PBGC has now announced that it will continue to publish rates and that beginning May 1, 2000, it will publish two sets of rates: "Lump Sum Interest Rates for PBGC Payments" and "Lump Sum Interest Rates for Private-Sector Plans." Initially, these two rate tables will be identical.

For plan sponsors that would like to calculate the lump sum value under both the pre-GATT rules and the GATT rules, and pay out the greater of these two amounts, this is a welcome announcement.

However, if the PBGC decides to change the way it sets interest rates for plan termination situations, plan documents that refer to the use of PBGC rates along with the GATT rates may need to be amended, to specify which PBGC rates they will use. To strictly preserve the pre-GATT rules, the plan document should refer to "the PBGC's Lump Sum Interest Rates for Private-Sector Payments." Alternatively, a plan sponsor could decide to use "the PBGC's Lump Sum Interest Rates for PBGC Payments."

As long as the two rate tables are the same, there is no urgency in amending plan documents to include a table reference. However, to avoid violating the protected benefit rules, plan documents must be amended to specify the applicable PBGC rate before the PBGC amends its own payment rates to differ from the private sector rates.

If you have questions about how these changes affect your plan, please contact your plan's enrolled actuary.

\*Republished December 2004 to reflect Prudential Financial's acquisition of CIGNA's retirement business.  
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RS.EM.049  
Ed. 4/2000\*