



Highlights of [GAO-08-667](#), a report to congressional requesters

Why GAO Did This Study

The Pension Benefit Guaranty Corporation (PBGC) insures the retirement future of over 44 million people. As a federal guarantor of private defined benefit plans, PBGC finances its operations through insurance premiums, investment income, and funds from terminated pension plans. PBGC is governed by a board of directors comprised of the Secretaries of Commerce, Labor, and Treasury, who are responsible for providing policy direction and oversight but often rely on board representatives. In 2004, PBGC began reviewing its investment policy biennially and recently decided to broaden the range of asset classes in which it invests.

GAO reviewed PBGC's procedures for developing and implementing its investment policies, and examined PBGC's most recent investment policy. To address these issues, GAO reviewed and analyzed PBGC policies and data, assessed the analysis informing the recent policy change, and interviewed agency officials and other experts.

What GAO Recommends

GAO recommends (1) improvements to the way that PBGC's board monitors progress in achieving investment policy goals, and (2) additional analyses on the new investment policy. In response, PBGC's board stated its informal guidance is appropriate oversight. GAO states this type of guidance is not strong enough for investing \$68 billion. Further, PBGC is conducting additional analysis on the new policy.

To view the full product, including the scope and methodology, click on [GAO-08-667](#). For more information, contact Barbara Bovbjerg at (bovbjergb@gao.gov), (202) 512-7215, or Thomas J. McCool at (mccoolt@gao.gov), (202) 512-2642.

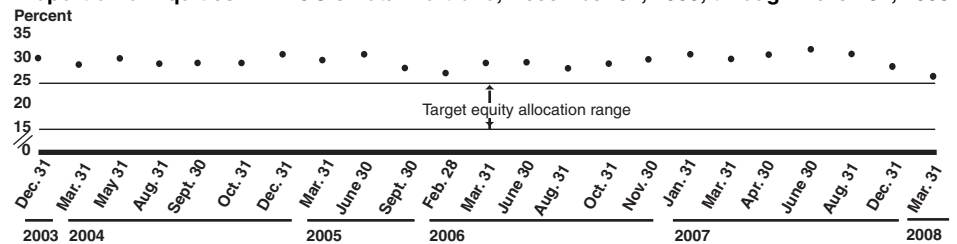
PBGC ASSETS

Implementation of New Investment Policy Will Need Stronger Board Oversight

What GAO Found

PBGC's directors collaborated with board representatives to reach consensus on a board-approved investment policy for each of the recent biennial reviews; however, it is not clear to what extent the board oversaw PBGC's efforts to implement its policy. Three different PBGC directors managed the policy reviews, which culminated in board ratification of the 2004, 2006, and 2008 policies. In 2004, the board instructed PBGC to limit its exposure to financial risk by reducing equity holdings to a range of 15 to 25 percent of its total investments; the board made the same requirements in 2006. The board has assigned responsibility to PBGC staff for implementing the investment program, monitoring investment managers, and reporting on investment performance. However, by 2008, the board's policy goal had not been attained. PBGC staff told us that high equity returns and low fixed-income returns made it difficult to reach the target allocation and that flexibilities built into the policy had allowed them to maintain a higher ratio, particularly since equity returns helped improve PBGC's overall financial condition. While PBGC's director and staff kept the board apprised of its investment performance and asset allocation, GAO found no indication that the board had approved the deviation from its established policy or expected PBGC to continue to reduce the proportion of equities to meet the policy objectives.

Proportion of Equities in PBGC's Total Portfolio, December 31, 2003, through March 31, 2008



• Actual equity level
 Source: GAO's analysis of PBGC data.

Note: Data represent certain points in time and are not comprehensive.

While the investment policy adopted in 2008 aims to reduce PBGC's \$14 billion deficit by investing in assets with a greater expected return, GAO found that the new allocation will likely carry more risk than acknowledged by PBGC's analysis. According to PBGC officials, the new allocation will be sufficiently diversified to mitigate the expected risks associated with the higher expected return. They also asserted that it should involve less risk than the previous policy. However, GAO's assessment demonstrates that the risks are likely higher in the new allocation. Although it is important that the PBGC consider ways to optimize its portfolio, including higher return and diversification strategies, the agency faces unique challenges, such as PBGC's need for access to cash in the short-term to pay benefits, which could further increase the risks it faces with any investment strategy that allocates significant portions of the portfolio to volatile or illiquid assets.