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Highlights

Highlights of GAO-04-150T, a testimony before the Special Committee on Aging, U.S. Senate.

Why GAO Did This Study

More than 34 million workers and retirees in 30,000 single-employer defined benefit pension plans rely on a federal insurance program managed by the Pension Benefit Guaranty Corporation (PBGC) to protect their pension benefits, and the program's long-term financial viability is in doubt. Over the last decade, the program swung from a $3.6 billion accumulated deficit (liabilities exceeded assets), to a $10.1 billion accumulated surplus, and back to a $3.6 billion accumulated deficit, in 2002 dollars. Furthermore, despite a record $9 billion in estimated losses to the program in 2002, additional severe losses may be on the horizon. PBGC estimates that financially weak companies sponsor plans with $35 billion in unfunded benefits, which ultimately might become losses to the program.

This testimony provides GAO's observations on the factors that contributed to recent changes in the single-employer pension insurance program's financial condition, risks to the program's long-term financial viability, and changes to the program that might be considered to reduce those risks.

www.gao.gov/cgi-bin/getrpt?GAO-04-150T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

PENSION BENEFIT GUARANTY CORPORATION

Long-Term Financing Risks to Single-Employer Insurance Program Highlight Need for Comprehensive Reform

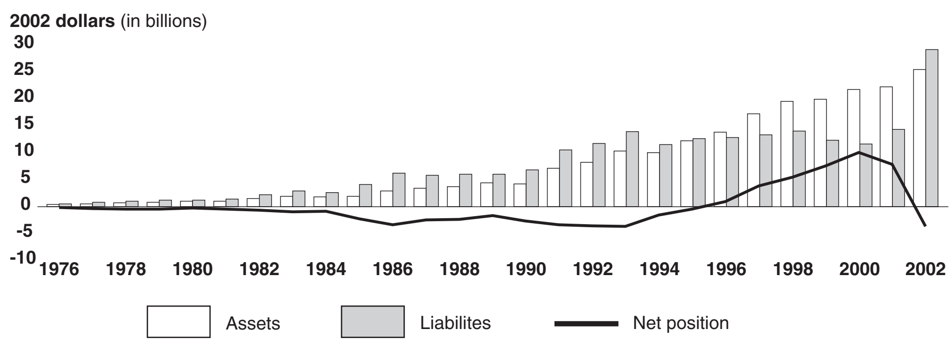
What GAO Found

The single-employer pension insurance program returned to an accumulated deficit in 2002 largely due to the termination, or expected termination, of several severely underfunded pension plans. Factors that contributed to the severity of plans' underfunded condition included a sharp stock market decline, which reduced plan assets, and an interest rate decline, which increased plan termination costs. For example, PBGC estimates losses to the program from terminating the Bethlehem Steel pension plan, which was nearly fully funded in 1999 based on reports to IRS, at $3.7 billion when it was terminated in 2002. The plan's assets had decreased by over $2.5 billion, while its liabilities had increased by about $1.4 billion since 1999.

The single-employer program faces two primary risks to its long-term financial viability. First, the losses experienced in 2002 could continue or accelerate if, for example, structural problems in particular industries result in additional bankruptcies. Second, revenue from premiums and investments might be inadequate to offset program losses experienced to date or those that occur in the future. Revenue from premiums might fall, for example, if the number of program participants decreases. Because of these risks, we recently placed the single-employer insurance program on our high-risk list of agencies with significant vulnerabilities to the federal government.

While there is not an immediate crisis, there is a serious problem threatening the retirement security of millions of American workers and retirees. Several reforms might reduce the risks to the program's long-term financial viability. Such changes include: strengthening funding rules applicable to poorly funded plans, modifying program guarantees, restructuring premiums, and improving the availability of information about plan investments, termination funding, and program guarantees. Any changes adopted to address the challenge facing PBGC should provide a means to hold plan sponsors accountable for adequately funding their plans, provide plan sponsors with incentives to increase plan funding, and improve the transparency of plan information.

Program Assets, Liabilities, and Net Position, Fiscal Years 1976-2002



Source: PBGC annual reports.