![GAO Highlights]

Highlights of GAO-04-90, a report to congressional requesters

Why GAO Did This Study

More than 34 million participants 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.

What GAO Recommends

GAO is not recommending executive action. However, given the long-term nature of the financial risks to PBGC's single-employer insurance program, the Congress should consider a comprehensive response that includes changes to strengthen plan funding and improve the transparency of plan information as well as consider proposals to modify program guarantees. In addition, PBGC's premium structure should be re-examined to see whether premiums can better reflect the risk posed by various plans to the pension system.

www.gao.gov/cgi-bin/getrpt?GAO-04-90.

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.

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PENSION BENEFIT GUARANTY CORPORATION

Single-Employer Pension Insurance Program Faces Significant Long-Term Risks

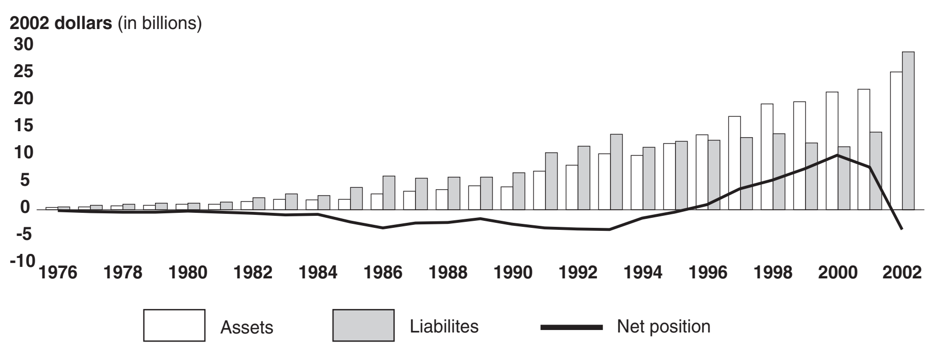
What GAO Found

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 the 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 the Internal Revenue Service (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 large losses 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. Participant-based premium revenue might fall, for example, if the number of program participants decreases. Because of these risks, GAO has recently placed the single-employer insurance program on its high-risk list of agencies with significant vulnerabilities to the federal government.

While the recent decline in the single-employer program's financial condition is not an immediate crisis, the threats to the program's long-term viability should be addressed. Several reforms might be considered to reduce the risks to the program's long-term financial viability. These 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. Under each reform, several possible actions could be taken. For example, one way to modify program guarantees is to phase-in certain unfunded benefits, such as "shutdown benefits," which may provide significant early retirement benefit subsidies to participants affected by a plant closing or a permanent layoff.

Participants and Plans Covered by the Single-Employer Insurance Program, 1980-2002



Source: PBGC annual reports.