



Highlights of [GAO-05-360T](#), a report to Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

PENSION BENEFIT GUARANTY CORPORATION

Structural Problems Limit Agency's Ability to Protect Itself from Risk

Why GAO Did This Study

More than 34 million workers and retirees in about 30,000 single-employer defined benefit plans rely on a federal insurance program managed by the Pension Benefit Guaranty Corporation (PBGC) to protect their pension benefits. However, the insurance program's long-term viability is in doubt and in July 2003 we placed the single-employer insurance program on our high-risk list of agencies with significant vulnerabilities for the federal government. In fiscal year 2004, PBGC's single-employer pension insurance program incurred a net loss of \$12.1 billion for fiscal year 2004, and the program's accumulated deficit increased to \$23.3 billion from \$11.2 billion a year earlier. Further, PBGC estimated that underfunding in single-employer plans exceeded \$450 billion as of the end of fiscal year 2004.

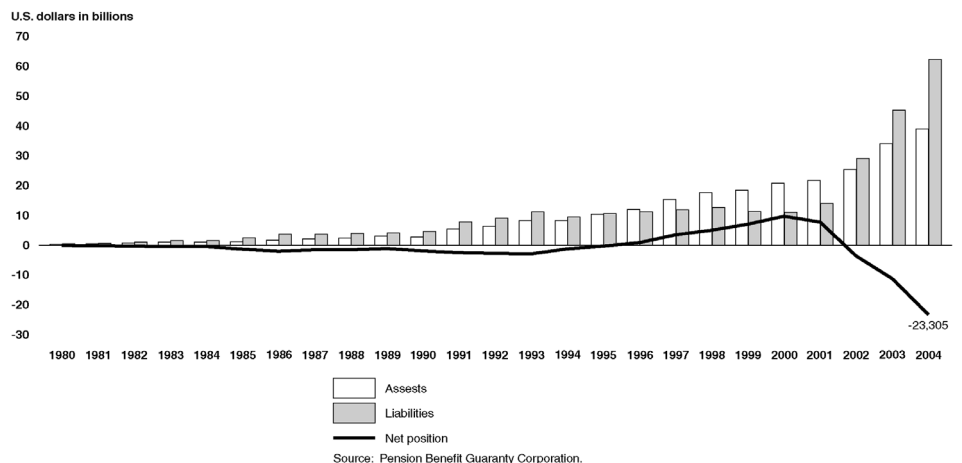
This testimony provides GAO's observations on (1) some of the structural problems that limit PBGC's ability to protect itself from risk and (2) steps PBGC has taken to forecast and manage the risks that it faces.

What GAO Found

Existing laws governing pension funding and premiums have not protected PBGC from accumulating a significant long-term deficit and have exposed PBGC to "moral hazard" from the companies whose pension plans it insures. The pension funding rules, under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC), were not designed to ensure that plans have the means to meet their benefit obligations in the event that plan sponsors run into financial distress. Meanwhile, in the aggregate, premiums paid by plan sponsors under the pension insurance system have not adequately reflected the financial risk to which PBGC is exposed. Accordingly, PBGC faces moral hazard, and defined benefit plan sponsors, acting rationally and within the rules, have been able to turn significantly underfunded plans over to PBGC, thus creating PBGC's current deficit.

Despite the challenges it faces, PBGC has proactively attempted to forecast and mitigate its risks. The Pension Insurance Modeling System, created by the PBGC to forecast claim risk, has projected a high probability of future deficits for the agency. However, the accuracy of the projections produced by the model is unclear. Through its Early Warning Program, PBGC negotiates with companies that have underfunded pension plans and that engage in business transactions that could adversely affect their pensions. Over the years, these negotiations have directly led to billions of dollars of pension plan contributions and other protections by the plan sponsors. Moreover, PBGC has changed its investment strategy and decreased its equity exposure to better shield itself from market risks. However, despite these efforts, the agency ultimately lacks the authority, unlike other federal insurance programs, to effectively protect itself.

Assets, Liabilities, and Net Financial Position of PBGC's Single-Employer Insurance Program, 1980-2004



www.gao.gov/cgi-bin/getrpt?GAO-05-360T.

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