



Highlights of [GAO-05-794T](#), a testimony before the Committee on Finance, United States Senate

Why GAO Did This Study

Pension funding rules are intended to ensure that defined benefit (DB) plans have sufficient assets to pay promised benefits to plan participants. However, recent terminations of large underfunded plans, along with continued widespread underfunding, suggest weaknesses in these rules, which may threaten the retirement income of these plans' participants, as well as the future viability of the Pension Benefit Guaranty Corporation (PBGC) single-employer insurance program, the federal program that insures certain benefits of the more than 34 million participants in over 29,000 plans. The program has gone from having a \$9.7 billion accumulated surplus at the end of fiscal year 2000 to a \$23.3 billion accumulated deficit as of September 2004, including a \$12.1 billion loss for fiscal year 2004. In addition, financially weak companies sponsored DB plans with a combined \$96 billion of underfunding as of September 2004, up from \$35 billion 2 years earlier. Addressing PBGC's challenges by way of comprehensive pension reform provides a real opportunity to address our long-term fiscal problems and to reconfigure our retirement security systems to bring them into line with 21st century needs and realities.

This testimony provides GAO's observations on weaknesses in DB pension funding rules and on how such rules should be amended as an integral part of comprehensive changes to the DB pension system. www.gao.gov/cgi-bin/getrpt?GAO-05-794T.

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.

PRIVATE PENSIONS

Revision of Defined Benefit Pension Plan Funding Rules Is an Essential Component of Comprehensive Reform

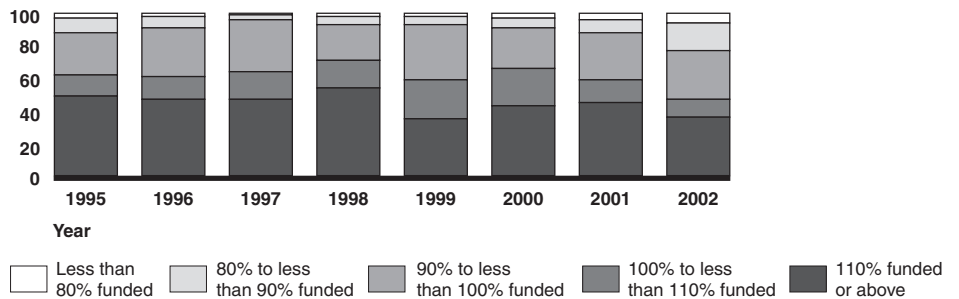
What GAO Found

From 1995 to 2002, most of the 100 largest DB plans annually had assets that exceeded their current liabilities, although on average many plans were underfunded, with liabilities exceeding plan assets. By 2002, however, over half of the 100 largest plans were underfunded, and almost one-fourth of plans were less than 90 percent funded. Further, because of leeway in the actuarial methodology and assumptions that sponsors may use to measure plan assets and liabilities, underfunding may actually have been more severe and widespread than reported. Additionally, on average over 60 percent of sponsors of these plans made no annual cash contributions to their plans during the period.

One key reason for such limited cash contributions is that the current funding rules allow a sponsor to satisfy minimum funding requirements without necessarily making a cash contribution each year, even though the plan may be significantly underfunded. Further, very few sponsors of underfunded plans were required to pay an additional funding charge (AFC), a funding mechanism designed to reduce severe plan underfunding.

Our analysis confirms the notion that plans sponsored by financially weak companies pose a significant risk to PBGC, as these plans were generally more likely to be underfunded, be subject to an AFC, and use assumptions to minimize contributions than plans sponsored by stronger firms.

Funding Levels among the Annual 100 Largest DB Plans, 1995–2002
Percentage of 100 largest DB plans



Source: GAO analysis of PBGC Form 5500 research data.