

United States Senate Committee on Finance

For Immediate Release

Tuesday, Oct. 3, 2006

Grassley, Baucus Seek GAO Review of Pension Agency Structure

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, have asked the Government Accountability Office to review whether the Pension Benefit Guaranty Corporation has adequate resources and is properly structured to handle the largest demands on services in its history. The senators asked for preliminary findings before the Senate confirms an agency executive director for the first time next year. Both the Finance Committee and the Health, Education, Labor and Pensions Committee are required to consider the nomination of future executive directors and recommend nominees for full Senate consideration.

The text of the Grassley-Baucus letter follows.

October 2, 2006

The Honorable David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Walker:

The Pension Benefit Guaranty Corporation (PBGC) is the guarantor of pensions for over 40 million workers. The recently enacted Pension Protection Act of 2006 (PPA) strengthened the long-term funding of defined benefit plans and provided legal clarity for hybrid plans in the future, yet we continue to read in the press of numerous companies terminating or freezing their defined benefit pension plans. Whatever the future holds for defined benefit plans, these plans remain a key retirement security component for today's older workers and retirees. We must be sure that the PBGC is both structured properly and performing properly to deal with these new challenges.

PBGC's 2005 data book provides statistics showing that PBGC is facing the largest administrative challenges in its history.

More than 80 percent of all claims against the PBGC have come since FY2000.

The benefits paid by PBGC grew from 243,000 participants receiving \$900 million in benefits in FY2000 to 698,000 participants receiving \$3.7 billion in benefits in FY2005.

Another 489,000 participants in plans already trusted by PBGC will receive benefits when they become eligible.

Assets in pension plans trusted by PBGC – and thus to be invested by PBGC – increased from about \$21 billion in FY 2000 to over \$56 billion in FY2005.

This rapid increase in participants, benefit payments and investments would be a challenge to any organization. We are particularly concerned in how PBGC is handling this challenge and whether legislative changes are needed in PBGC's structure, appropriations, or law.

In making these recommendations, we would like you to specifically look at how the following issues affect PBGC's ability to carry out its important role to participants and beneficiaries:

Does PBGC have the most appropriate administrative structure (a private corporation headed by the Secretaries of Labor, Commerce and the Treasury)? We are especially concerned with whether PBGC should have more independence from the policy priorities of the three cabinet agencies. Would a structure more like the IRS or SEC provide a more neutral decision making process?

Can PBGC attract the type of expert financial, actuarial and legal staff it needs or should its salary scale be similar to those of the other financial agencies and the SEC, with whom it is in competition for skilled staff?

Has the former Executive Director's reorganization of the PBGC to break up its General Counsel's Office helped PBGC provide better service?

How does PBGC make contracting decisions for delivering benefit services to participants and for investing trusted plan assets? (This would be a follow-up to earlier work that GAO did on PBGC contracting.)

How has PBGC's move away from equities in its portfolio impacted PBGC's financial health and likely ability to pay future benefits?

We will be confirming a PBGC Executive Director for the first time next year. It would be very helpful to that process if you can provide us with preliminary information on the above issues by January 31, 2007.

Sincerely yours,

Charles Grassley
Chairman

Max Baucus
Ranking Member