U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

http://finance.senate.gov

MEMORANDUM

To: Reporters and Editors
Re: Pension Benefit Guaranty Corporation's financial results
Da: Wednesday, Nov. 15, 2006

Sen. Chuck Grassley, chairman of the Committee on Finance and a key author of the *Pension Protection Act of 2006*, made the following comment on the Pension Benefit Guaranty Corporation's Fiscal Year 2006 financial results released today.

"It's good to see the new pension reforms already working as intended. I'm glad the Senate-passed airline provisions included in the final bill already have reduced the PBGC's deficit by billions of dollars. Our challenge was to look out for retirees, employees, and taxpayers. We needed to make sure the PBGC covers the pensions of those whose employers legitimately can't cover their obligations. At the same time, we had to protect taxpayers from potentially bailing out a huge PBGC deficit caused by companies that too easily dumped their pensions on the PBGC's doorstep and walked away. But I don't want to overstate the reforms as a panacea for all pension funding problems. They'll make a difference, but Congress needs to stay on top of the situation. Until this year, we hadn't considered a major overhaul of pension guarantee legislation since 1974. It's hard to get the horse back in the barn after the door's been opened."

The PBGC's news release follows.

FOR IMMEDIATE RELEASE
November 15, 2006
Contact: PBGC News Division
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PBGC RELEASES FISCAL YEAR 2006 FINANCIAL RESULTS

The Pension Benefit Guaranty Corporation's insurance program for single-employer pension plans posted a deficit of $18.1 billion in fiscal year 2006, compared with the $22.8 billion shortfall recorded a year ago, according to the agency's Annual Management Report [http://www.pbgc.gov/docs/PBGCAMR.pdf] submitted to Congress today. The $4.7 billion net improvement is attributable mainly to the airline relief provisions in the Pension Protection Act that led to a sharp reduction in the amount of "probable" liabilities reflected on the agency's balance sheet.

"The PBGC's financial condition appears to have stabilized for the time being," said Interim Director Vince Snowbarger. "Our current assets can cover pension payments coming due for a number of years into the future, and our exposure to additional losses has declined."

As of September 30, the single-employer program reported assets of $60 billion and liabilities of $78.1 billion. In addition to on-balance-sheet liabilities, the report showed the PBGC's potential future exposure to losses from pension plans sponsored by financially weak employers decreased to $73 billion, compared to $108 billion in 2005. Higher interest rates, and improved credit ratings and plan funding among some employers were factors for the reduced risk of claims. Total underfunding of insured single-employer plans decreased to approximately $350 billion, compared to $450 billion estimated in
2005.

During the year, the single-employer program took in 94 terminated pension plans with a total of $600 million in assets and $1.1 billion in future benefit liabilities, for an average funded ratio of about 50 percent. All but $200 million of this liability was already reflected on the PBGC's balance sheet at the end of fiscal year 2005. The program insures the pensions of 34 million Americans in about 28,800 plans.

The PBGC was responsible for the pension benefits of 1.3 million workers and retirees in 2006, reflecting no net change from 2005. The amount of benefits paid increased from $3.7 billion in 2005 to $4.1 billion in 2006 and is projected to rise to $4.8 billion in 2007.

The PBGC's separate insurance program for multiemployer pension plans posted a net loss of $404 million in fiscal year 2006, versus a $99 million net loss in 2005, increasing the program's net deficit to $739 million from the $335 million recorded a year earlier. The $305 million increase in net loss is due primarily to a projected $257 million increase in loss from providing financial assistance to multiemployer plans, partially offset by a $32 million increase in premium income. Reasonably possible exposure to pension plans that may require financial assistance in the future declined to $83 million from $418 million in 2005. The agency estimated total pension underfunding in the multiemployer system at $150 billion in 2006, down from about $200 billion in the previous year. Overall, the multiemployer program has about $1.2 billion in assets to cover $1.9 billion in liabilities. It insures the pensions of almost 10 million Americans in some 1,540 plans.

The PBGC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements for fiscal year 2006 received an unqualified audit opinion. Clifton Gunderson LLP performed the audit under the direction and oversight of the agency's Inspector General.

PBGC is a federal corporation created under the Employee Retirement Income Security Act of 1974. It currently guarantees payment of basic pension benefits for 44 million American workers and retirees participating in over 30,000 private-sector defined benefit pension plans. The agency receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor pension plans and by PBGC's investment returns.

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