



Highlights of [GAO-03-873T](#), a testimony before the Committee on Education and the Workforce, U.S. House of Representative

PENSION BENEFIT GUARANTY CORPORATION

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

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.

This testimony provides GAO's observations on the factors that contributed to recent changes in the single-employer pension insurance program's financial condition, risks to the program's long-term financial viability, and options to address the challenges facing the single-employer program.

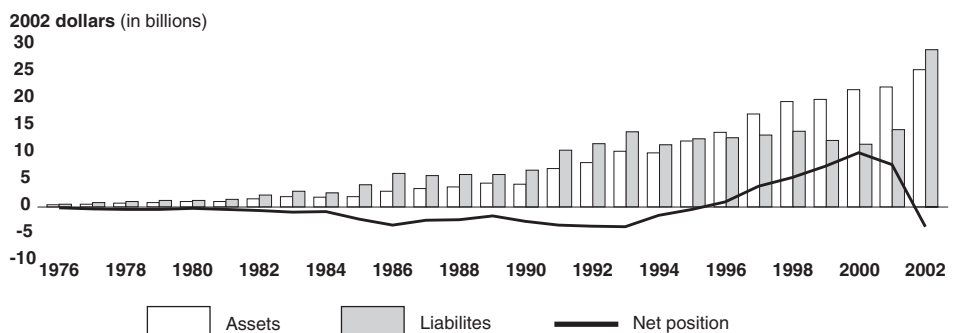
What GAO Found

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 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 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, we have recently placed the single-employer insurance program on our high-risk list of agencies with significant vulnerabilities to the federal government.

While there is not an immediate crisis, there is a serious problem that relates to the need to protect the retirement security of millions of American workers and retirees and should be addressed. Agency officials and others have suggested taking a more proactive approach and have identified a variety of options to address the challenges facing the single-employer program that should be considered. The first, would be to improve the transparency of information about plan funding, plan investments, and PBGC guarantees; a second would be to strengthen funding rules to ensure that poorly funded plans are better funded in the future; and a third would be to reform PBGC by restructuring certain unfunded benefit guarantees, such as so-called "shutdown benefits," and program premiums.

Program Assets, Liabilities, and Net Position, Fiscal Years 1976-2002



Source: PBGC annual reports.

www.gao.gov/cgi-bin/getrpt?GAO-03-873T.

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.