PENSION BENEFIT GUARANTY CORPORATION (PBGC)

Statement of Regulatory and Deregulatory Priorities

PBGC Insurance Programs

The Pension Benefit Guaranty Corporation (PBGC) administers two insurance programs for private defined benefit plans under title IV of the Employee Retirement Income Security Act of 1974 (ERISA): A single-employer plan termination insurance program and a multiemployer plan insolvency insurance program. The PBGC protects the pensions of nearly 43 million working men and women in about 39,000 private defined benefit plans, including about 1,800 multiemployer plans.

Under the single-employer program, the PBGC pays guaranteed and certain other pension benefits to participants and beneficiaries if their plan terminates with insufficient assets (distress and involuntary terminations). At the end of fiscal year 1999, the PBGC was trustee of almost 2,800 plans, and paid $902 million in benefits to about 230,000 people during 1999. Another 217,000 people will receive benefits when they retire in the future.

Most terminating single-employer plans terminate with sufficient assets to pay all benefits. The PBGC has administrative responsibility for these terminations (standard terminations), but its role is limited to seeing that proper procedures are followed and participants and beneficiaries receive their plan benefits.

The multiemployer program (which covers about 9 million workers and retirees in about 1,800 insured plans) is funded and administered separately from the single-employer program and differs in several significant ways. The multiemployer program covers only collectively bargained plans involving more than one unrelated employer. The PBGC provides financial assistance (in the form of a repayable loan) to the plan if the plan is unable to pay benefits at the guaranteed level. Guaranteed benefits are generally less than a participant's full benefit under the plan (and less than the single-employer guaranteed benefit). PBGC financial assistance occurs infrequently.

The PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums, investment income, assets from pension plans trusteed by the PBGC, and recoveries from the companies formerly responsible for the trusteed plans.

To carry out these functions, the PBGC must issue regulations interpreting such matters as the termination process, establishment of procedures for the payment of premiums, and assessment and collection of employer liability.

Objectives and Priorities

PBGC regulatory objectives and priorities are developed in the context of the statutory purposes of title IV: (1) to encourage voluntary private pension plans, (2) to provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries, and (3) to maintain the premiums that support the insurance programs at the lowest possible levels consistent with carrying out the PBGC's statutory obligations (ERISA section 4002(a)).

The PBGC implements its statutory purposes by developing regulations designed: (1) to assure the security of the pension benefits of workers, retirees, and beneficiaries; (2) to improve services to participants; (3) to ensure that the statutory provisions designed to minimize losses for participants in the event of plan termination are effectively implemented; (4) to encourage the establishment and maintenance of defined benefit pension plans; (5) to facilitate the collection of monies owed to plans and to the PBGC, while keeping the related costs as low as possible; and (6) to simplify the termination process.

Legislative Initiatives

Since the early 1980s, there has been a gradual shift away from defined benefit pension plans in the private sector. The number of PBGC-insured defined benefit plans peaked in 1985 at about 112,000. Since then, there has been a sharp decline to about 40,000 plans in 1999.

This reduction has not been proportional across all plan sizes. Plans with fewer than 100 participants have shown the most marked decline, from about 90,000 in 1985 to less than 24,000 in 1999. There also has been a sharp decline for plans with between 100 and 999 participants, from more than 19,000 in 1985 to about 11,000 in 1999.

In marked contrast to the trends for plans with fewer than 1,000 participants, the number of plans with more than 1,000 participants has shown modest growth. Since 1980, the number of plans with between 1,000 and 9,999 participants has grown by about 6 percent, from 4,017 to 4,257 in 1999. The number of plans with at least 10,000 participants has grown from 469 in 1980 to 749 in 1999, an increase of nearly 60 percent.

The growth in the number of large plans is attributable to two factors. First, the rapid increase in inactive participants (retirees and separated vested participants) has pushed some plans into higher size categories. Second, there has been considerable plan merger activity over the 13-year period from 1985 through 1997.

In contrast to the dramatic reduction in the total number of plans, the total number of participants in PBGC-insured defined benefit plans has shown modest growth. In 1980, there were 35.5 million participants. By 1999, this number had increased to almost 43 million.

These numbers, however, mask the downward trend in the defined benefit system because total participants include not only active workers but also retirees (or their surviving spouses) and separated vested participants. The latter two categories of participants reflect past coverage patterns in defined benefit plans. A better forward-looking measure is the trend in the number of active participants, workers currently earning pension accruals. Here, the numbers continue to decline.

In 1988, there were 27.3 million active participants in defined benefit plans; by 1996 (the latest data available), this number had fallen to 22.6 million, a decrease of more than 17 percent. At the same time, the number of inactive participants has been growing. In 1980, inactive participants accounted for only 23 percent of total participants in defined benefit plans. By 1988, this number had increased to 31 percent; and by 1996, more than 45 percent of the participants in defined benefit plans were inactive participants. If this trend continues, by the year 2003, the number of inactive participants will exceed the number of active workers.

The President's budget for fiscal year 2001 includes numerous provisions to encourage the expansion of retirement plan coverage, including under defined benefit plans. These provisions include:

- A simplified defined benefit plan called SMART (Secure Money Annuity or Retirement Trust) for small businesses with 100 or fewer employees;
- A reduced PBGC premium of $5 per participant for the first 5 years of a small business's new plan and phase-in of the variable-rate premium over 5 years for new plans of all sizes;
- Expansion of the missing participants clearinghouse for terminating single-employer defined benefit plans

insured by the PBGC to other terminating plans—multiemployer defined benefit pension plans insured by the PBGC, certain other defined benefit pension plans not insured by the PBGC, and defined contribution plans;

- Simplified rules governing the PBGC's guarantee of benefits for a partial owner of a company and the allocation of plan assets to the benefits of these owner-employees; and
- Increasing the PBGC's benefit guarantee for multiemployer plans, which has been at the same level since 1980, from the current maximum guarantee of $5,850 to $12,870 (the guarantee increase would require no change in the multiemployer premium rate).

Regulatory and Deregulatory Initiatives

The PBGC has focused on changes that would simplify the rules and reduce regulatory burden. For example, over the past few years, the PBGC has reduced penalties for late premiums that are paid before the PBGC notifies the plan of the delinquency, extended the time limits for various actions required to terminate a fully funded single-employer plan in a standard termination, stopped the reduction of monthly benefits under its actuarial recoupment method once the nominal amount of the benefit overpayment is repaid, provided participants with benefits valued up to $5,000 in PBGC-trusteed plans with the choice of receiving their benefit in the form of an annuity or a lump sum, and extended the filing date for PBGC premiums to match the latest Form 5500 filing date.

In FY 2000, the PBGC:

- Amended its premium regulation to encourage self-correction of premium underpayments by making it easier to qualify for safe-harbor penalty relief (final rule, November 26, 1999).
- Simplified its valuation assumptions by adopting a single set of assumptions for allocation purposes (final rule, March 17, 2000).
- Assured the public that it intended to continue to calculate and publish its lump sum interest rates indefinitely and amended its regulations to make it easier for practitioners to refer to those rates (final rule, March 17, 2000).
- Solicited public comment on benefit valuation and payment issues relating to terminated cash balance plans that use variable indices to determine future retirement benefits (request for comments, July 6, 2000).

The PBGC is continuing to review its regulations to look for further simplification opportunities. The PBGC's regulatory plan for October 1, 2000, to September 30, 2001, consists of one significant regulatory action.

PBGC

PROPOSED RULE STAGE

154. ALLOCATION OF ASSETS IN SINGLE-EMPLOYER PLANS; VALUATION OF BENEFITS AND ASSETS

Priority:

Other Significant

Legal Authority:

29 USC 1302(b)(3); 29 USC 1341; 29 USC 1301(a); 29 USC 1344; 29 USC 1362

CFR Citation:

29 CFR 4044 subpart B

Legal Deadline:

None

Abstract:

The Pension Benefit Guaranty Corporation is considering amending its benefit valuation and asset allocation regulations by adopting more current mortality tables and otherwise simplifying and improving its valuation assumptions and methods.

Statement of Need:

The PBGC's regulations prescribe rules for valuing a terminating plan's benefits for several purposes, including (1) determining employer liability and (2) allocating assets to determine benefit entitlements. The PBGC's interest assumption for valuing benefits, when combined with the PBGC's mortality assumption, is intended to reflect the market price of single-premium, nonparticipating group annuity contracts for terminating plans. In developing its interest assumptions, the PBGC uses data from surveys conducted by the American Council of Life Insurance. The PBGC currently uses a mortality assumption based on the 1983 Group Annuity Mortality Table in its benefit valuation and asset allocation regulations (29 CFR parts 4044 and 4281).

In May 1995, the Society of Actuaries Group Annuity Valuation Table Task Force issued a report that recommends new mortality tables for a new Group Annuity Reserve Valuation Standard and a new Group Annuity Mortality Valuation Standard. In December 1996, the National Association of Insurance Commissioners adopted the new tables as models for determining reserve liabilities for group annuities. The PBGC is considering incorporating these tables into its regulations and making other modifications.

Summary of Legal Basis:

The PBGC has the authority to issue rules and regulations necessary to carry out the purposes of title IV of ERISA.

Alternatives:

Not yet determined.

Anticipated Cost and Benefits:

Cost estimates are not yet available. However, the PBGC expects that this regulation will not have a material effect on costs.

Risks:

Not applicable.

Timetable:

Action	Date	FR Cite
ANPRM	03/19/97	62 FR 12982
ANPRM Comment Period End	05/19/97	
NPRM	07/00/01	
NPRM Comment Period End	09/00/01	

Regulatory Flexibility Analysis Required:

No

Government Levels Affected:

None

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