May 20, 2008

PENSION BENEFIT GUARANTY CORPORATION

Financial Challenges Highlight Need for Improved Governance and Management

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Highlights

Highlights of GAO-09-702T, a testimony before the Senate Special Committee on Aging, U.S. Senate

Why GAO Did This Study

The Pension Benefit Guaranty Corporation (PBGC) insures the retirement future of nearly 44 million people in over 29,000 private-sector defined benefit pension plans.

In July 2003, GAO designated PBGC's single-employer pension insurance program—its largest insurance program—as "high risk," including it on GAO's list of major programs that need urgent Congressional attention and agency action. The program remains on the list today with a financial deficit of just over $11 billion, as of September 2008.

The committee asked GAO to discuss our recent work on PBGC. Specifically, this testimony addresses two issues: (1) PBGC's financial vulnerabilities, and (2) the governance, oversight, and management challenges PBGC faces.

To address these objectives, we are relying on our prior work assessing PBGC's long-term financial challenges, and several reports that we have published over the last two years on PBGC governance and management. GAO has made a number of recommendations and identified matters for Congressional consideration in these reports, and PBGC is implementing some of these recommendations. No new recommendations are being made as part of this testimony.

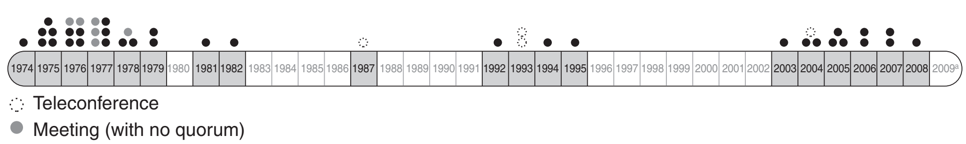
View GAO-09-702T or key components.
For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

Financial and economic conditions have deteriorated since we last reported on PBGC's finances. While PBGC's deficit improved for fiscal year 2008, the fiscal year ended just prior to the severe market downturn, and this lower deficit may be a product of conditions that no longer exist. As a result, it is likely that PBGC's net position looks different today. Other recent events have also added to PBGC's financial challenges. These events include: recent legislation that grants funding relief to certain sponsors, developments with PBGC's investment policy, and a concern that a wide array of industry sectors—including the automotive sector—are under financial distress and may expose PBGC to future claims. As a result, the potential for automaker pension plan terminations could dramatically increase not only PBGC's deficit, but also its administrative workload.

With mounting financial challenges and the potential for PBGC's workload to dramatically increase, our concerns about PBGC governance and strategic management have become acute, and improvements are needed, now more than ever. PBGC's board has limited time and resources to provide policy direction and oversight. The three-member board includes the Secretary of Labor, as the Chair of the Board, and the Secretaries of Commerce and Treasury. These board members have numerous other responsibilities and are unable to dedicate consistent and comprehensive attention to PBGC. With only 3 members, PBGC's board may not be large enough to include the knowledge needed to direct and oversee PBGC. In fact, the new board members have yet to meet, and there has not been a face-to-face board meeting in the last 15 months. In addition, without an appointed director, PBGC's governance structure is further exposed to challenges. Further, PBGC continues to lack a fully-adopted strategic approach to its acquisition and human capital management needs. Although contract employees comprise two-thirds of PBGC's workforce, PBGC's strategic planning generally does not recognize contracting as a major aspect of PBGC activities.

Number of PBGC Board Meetings 1974 to May 2009



Source: GAO analysis of PBGC documents and board meeting minutes.

Note: 2009 board meeting data is as of May 7, 2009.