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Highlights

Highlights of GAO-06-429, a report to congressional requesters

March 2006

PRIVATE PENSIONS

Opportunities Exist to Further Improve the Transparency of PBGC's Financial Disclosures

Why GAO Did This Study

The Pension Benefit Guaranty Corporation's (PBGC) single-employer insurance program insures the pension benefits of over 34 million participants in almost 29,000 private sector defined benefit pension plans. The increase in PBGC's probable claims has raised questions about PBGC's monitoring and financial disclosure practices, including whether the information that PBGC discloses is sufficient for interested parties to understand the effect on PBGC's financial condition. GAO examined (1) the steps that PBGC takes to monitor and ensure the accuracy of its probable claims, (2) how PBGC's financial liability reporting compares with those of publicly traded companies, and (3) the steps PBGC has taken to improve the transparency of its financial reporting and whether additional improvement is needed.

What GAO Recommends

To improve the transparency of the information PBGC discloses about its financial condition, GAO recommends that PBGC (1) disclose in its press releases whether a newly terminated plan was already included in its published deficit, and (2) make its interest rate methodology more widely available to the public. PBGC agreed with our recommendations. Also, PBGC, FDIC, and SEC provided technical comments on the draft. We incorporated each agency's comments as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-06-429.

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.

What GAO Found

PBGC takes steps to monitor and ensure the accuracy of its single-employer probable claims forecasts. PBGC reported it monitors its probable claims on an ongoing basis by contacting plan sponsors to obtain certain plan financial information, reviewing filings submitted by probable plans to conduct a risk analysis, and performing valuations to determine the present value of net probable claims and expected date of probable plan termination. To ensure the accuracy of its probable claims, PBGC reported that it uses an automated system and available plan financial data to calculate the assets and liabilities for probable plans.

PBGC and public companies have different practices for disclosing certain information about liability settlements, including probable losses, that arise from the differences between PBGC's responsibilities and disclosure policies, and the Security and Exchange Commission's (SEC) requirements for public companies. While PBGC and public companies follow the same accounting standards for recording probable losses in their annual financial statements, they each follow different policies and requirements when reporting information about probable losses throughout the fiscal year. When reporting information on liability settlements, public companies are required to follow the standards set forth by SEC requirements, while PBGC, which is not subject to SEC requirements, follows its own set of policies and procedures. GAO found that PBGC's disclosure practices regarding probable losses are more comparable to those of the Federal Deposit Insurance Corporation (FDIC).

PBGC has made efforts to improve the transparency of the information it discloses about its financial condition, but pension experts, financial analysts, and others believe that additional improvements are still needed. PBGC has recently taken steps to include more information about its methodology for determining probable claims in its annual reports and make more detailed information on its financial condition available on its Web site. However, pension experts, analysts, and industry association representatives still have concerns about transparency. Many stated that the press releases PBGC issues that announce newly terminated plans do not provide the public with enough information to determine the financial impact of such plans on PBGC's published deficit. In addition, these parties expressed concern about the lack of transparency regarding the methodology PBGC uses to determine its interest rate its uses to calculate its liabilities. Specifically, these parties told us the fact that PBCG does not widely disclose the interest rate methodology contributes to ambiguity about PBGC's assumptions and means that these parties are unable to fully assess PBGC's financial condition.