



Note: This highlights page is a standalone document, GAO-03-1050SP.

Background

The potential losses that PBGC, through its single-employer insurance program, might face from the termination of underfunded plans have been a longstanding concern of the Congress and GAO. In 1990, as part of our effort to call attention to high-risk areas in the federal government, we noted that weaknesses in the single-employer insurance program's financial condition threatened PBGC's long-term viability. We stated that minimum funding rules still did not ensure that plan sponsors would contribute enough for terminating plans to have sufficient assets to cover all promised benefits. In 1992, we also reported that PBGC had weaknesses in its internal controls and financial systems that placed the entire agency, and not just the single employer program, at risk. Three years later, we reported that legislation enacted in 1994 had strengthened PBGC's program weaknesses and that we believed improvements had been significant enough for us to remove the agency's high-risk designation. However, given the potential for significant changes in the program's position, we continued to monitor the situation.

Early this year, PBGC's single-employer pension insurance program reported a \$3.6 billion accumulated deficit for fiscal year 2002, brought on by the termination of a number of large underfunded pension plans. Given significant risk of termination of other large underfunded plans, GAO is assigning PBGC's single-employer insurance program to its "high risk" list, highlighting the need for congressional and agency action.

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PENSION BENEFIT GUARANTY CORPORATION SINGLE-EMPLOYER INSURANCE PROGRAM

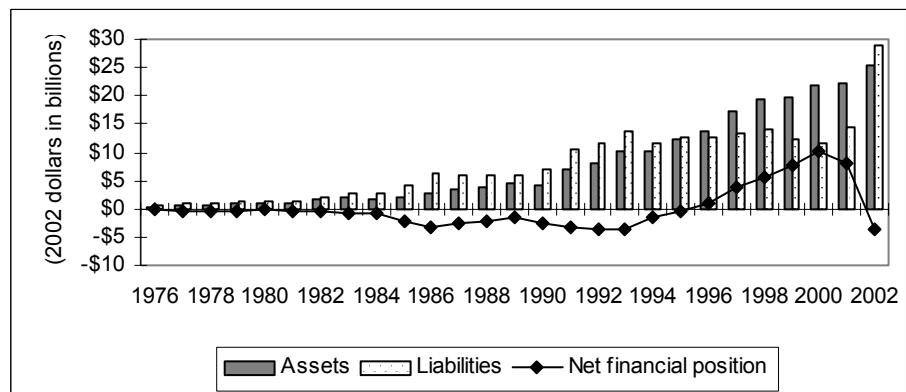
Long-Term Vulnerabilities Warrant "High Risk" Designation

Why Area is "High Risk"

GAO has designated PBGC's single-employer pension insurance program as "high risk," adding it to the list of agencies or major programs that need urgent attention and transformation to ensure that our national government functions in the most economical, efficient and effective manner possible. The single-employer insurance program insures the pension benefits of over 34 million participants in more than 30,000 private defined benefit plans. Agencies or programs receiving a "high risk" designation receive greater attention from GAO and are assessed in regular biennial reports.

After fluctuating over the last decade, the single employer insurance program now has a large and growing accumulated deficit. The program has moved from a \$9.7 billion accumulated surplus in 2000 to a \$3.6 billion accumulated deficit in fiscal year 2002. As of April 2003, the program's unaudited deficit was an estimated \$5.4 billion, the largest in PBGC history. Furthermore, the degree of underfunding in the private pension system has increased dramatically and additional severe losses may be on the horizon. PBGC estimates that financially weak firms sponsor plans with over \$35 billion in unfunded benefits, which ultimately might become program losses. The termination of large underfunded pension plans of bankrupt firms in troubled industries like steel or airlines was the major cause of the deficit. Declines in the stock market and interest rates and certain weaknesses in the current funding rules contributed to the severity of the plans' underfunded condition. However, these factors mask broader trends that pose serious program risks. For example, the program's insured participant base continues to shift away from active workers, falling from 78 percent of all participants in 1980 to 53 percent in 2000. In addition, the program's risk pool has become concentrated in industries affected by global competition and the movement from an industrial to a knowledge based economy. In 2001, almost half of all program insured participants were in plans sponsored by firms in manufacturing industries.

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



Source: PBGC annual reports