# FY 2008

# CONGRESSIONAL BUDGET JUSTIFICATION

# PENSION BENEFIT GUARANTY CORPORATION

# PENSION BENEFIT GUARANTY CORPORATION

## PERFORMANCE BUDGET

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# PENSION BENEFIT GUARANTY CORPORATION

## GENERAL STATEMENT

**<u>Introduction</u>**

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) was created by the Employee Retirement Income Security Act of 1974 to encourage the continuation and maintenance of private-sector defined benefit pension plans, provide timely and uninterrupted payment of pension benefits, and keep pension insurance premiums at a minimum. Defined benefit pension plans promise to pay a specified monthly benefit at retirement, commonly based on salary and years on the job.

PBGC insures basic pension benefits of over 44 million American workers and retirees participating in over 30,000 private-sector, defined benefit plans - providing benefit payments of about $4.1 billion annually and management of more than $59 billion in assets. PBGC is responsible for administering two insurance programs – the single employer program and the multi-employer program.

In the *single-employer* program, PBGC pays benefits guaranteed by law for private sector, single employer defined-benefit pension plans when the plans close without enough assets to pay future benefits. Under the single-employer program, PBGC protects the pensions of some 34.2 million workers in 28,800 plans. PBGC pays monthly retirement benefits to about 700,000 retirees in over 3,600 pension plans that have ended. Including those who have not yet retired and participants in multiemployer plans receiving financial assistance, PBGC is responsible for the current and future pensions of about 1.3 million people.

Under the *multiemployer* program, PBGC protects the pension benefits of more than 9.9 million people covered by 1,600 multiemployer plans. In this program, PBGC provides repayable loans to multiemployer plans (e.g., plans sponsored by several firms and a union) so that they can continue to pay benefits.

Title IV of the Employee Retirement Income Security Act (ERISA) of 1974, as amended, provides PBGC with permanent, indefinite spending authority. The Corporation is self-financing through insurance premiums paid by companies that sponsor defined benefits pension plans and by investment income and assets from terminated plans.

Unlike many other organizations, PBGC has little control over the workload it must process and the related program payments. When covered defined benefit plans terminate, the Corporation must assume responsibility for the terminated plans and provide uninterrupted timely payment of benefits to all eligible participants. As a result, PBGC's budget activities – benefit payments and financial assistance, as well as its operating budget and investment management expenses are classified as mandatory spending.

For workload purposes, the FY 2008 request assumes that PBGC will receive 100 new terminated plans with about 100,000 new participants in each of the next two years.

For FY 2008, the Corporation requests an operating budget of $411,151,000, a net increase over the FY 2007 request of $5,760,000.

*Synopsis of Program Increases/Decreases*

For the FY 2008 operating budget PBGC requests one program increase of $5,000,000 to cover increased investment management costs associated with growth of the trust fund portfolio, including growth in illiquid assets. In addition, the Corporation's FY 2008 budget allows for the full complement of FTE (870). The Corporation's current workforce is approximately two-thirds contract staff and one-third federal staff. PBGC believes it is essential to corporate long-term efficiency and productivity to fully fund its federal staff ceiling.

There is also $7,000,000 in the budget to support the EFAST2 system development by DOL, which will provide more timely comprehensive pension data to PBGC. The funding for EFAST2 is a continuation of the request in the FY2007 Congressional Budget Justification, and does not represent a FY2008 increase; rather, it is part of the FY2008 baseline.

The FY 2008 operating budget request includes decreases totaling $9,299,000 as follows: $2,692,000 for development of the Consolidated Financial System; $2,862,000 for the proposed integrated Risk Management and Legal Matter Systems that will be implemented by FY 2007 and; $3,745,000 to eliminate the one-time unobligated balance brought forward from FY 2006.

*DOL Strategic Goal Contribution*

PBGC's strategic plan has three goals that support the Secretary of Labor's Strategic Goal for Strengthened Economic Protections. The PBGC's Strategic Goals are: 1) Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders; 2) Provide exceptional service to customers and stakeholders; and 3) Exercise effective and efficient stewardship of PBGC resources.

**Issues, Outcomes and Strategies**

The Corporation is experiencing the heaviest workload and operational pressures in its history. Multi-billion dollar bankruptcies, a growing portfolio of distress terminations, and an increasing number of corporate transactions that pose a material risk of loss to the insurance program are all factors contributing to the increased workload and weak financial forecast.

As of September 30, 2006, the single-employer and multiemployer programs reported deficits of $18.142 billion and $739 million, respectively. The single-employer program had assets of nearly $60.0 billion which is offset by total liabilities of $78.1 billion. As of September 30, 2006, the multiemployer program had assets of approximately $1.2 billion offset by approximately $1.9 billion in present value of non-recoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations for a number of years; however, neither program at present has the resources to fully satisfy the PBGC's long-term obligations to plan participants.

Measures of risk in the PBGC's insured base of plan sponsors suggest that there may continue to be large claims against the single-employer pension insurance program. The PBGC's best estimate of its loss exposure to underfunded plans sponsored by companies with credit ratings below investment grade and classified by the PBGC as reasonably possible of termination as of

September 30, 2006, was $73 billion. For 2006, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; services/other; and wholesale and retail trade.

There is significant volatility in plan underfunding and sponsor credit quality over time, which makes long-term estimates of the PBGC's expected claims difficult. This volatility, and the concentration of claims in a relatively small number of terminated plans, have characterized the PBGC's experience to date and will likely continue. Among the factors that will influence the PBGC's claims going forward are economic conditions affecting interest rates, financial markets, and the rate of business failures.

Persistent underfunding in plans, recent large-scale bankruptcies and plan terminations, intensified legal and enforcement activity, and continued exposure to future losses in certain industry sectors are continuing to bring pressure to bear on PBGC and the pension insurance system. Due to the large intake of trusteed plans and participants over the last four years, PBGC's inventory of 364,000 final benefit determinations to be issued remains at a level far above annual average processing capacity of about 150,000. The Corporation is actively monitoring 800 cases that present risk exposure to the pension insurance program. Assets under management have grown to more than $59 billion. Although FY 2006 saw a slight drop in terminations, the cumulative inventory of work from the previous three years continues to stretch PBGC resources.

The Corporation has established a number of priorities for FY 2007 and FY 2008 and beyond that will better enable the agency to safeguard the federal pension insurance system for the benefit of all of its stakeholders, provide exceptional service to its customers and exercise effective and efficient stewardship of its resources.

*Safeguard the Pension Insurance System*

The Corporation is committed to working in collaboration with the other ERISA agencies and financial regulators with a view to strengthening enforcement of funding obligations, improving regulatory oversight, and enhancing disclosure of timely and relevant information relating to pension plans and plan sponsors.

In his 2007 Budget, the President proposed comprehensive pension reform to address structural flaws in the statutory plan funding requirements and in the design of the pension insurance program. The Congress responded by passing the Pension Protection Act (PPA), P.L. 109-280, which was enacted August 17, 2006. The Act tightens minimum standards and improves incentives for funding plans adequately while improving disclosure to workers, investors and regulators about pension plans.

The new legislation replaces multiple measures of pension liabilities with one measure, adjusts plan funding targets based on the pension plan's financial health, requires heavily underfunded plans to forgo or immediately fund additional benefits they promise, and allows plan sponsors to make additional deductible contributions so they can create a funding cushion during good economic times. Underfunded plans will have a reasonable period of time in which to eliminate their unfunded liabilities.

Improved disclosure will help workers make informed decisions about their future retirements, and will provide workers, investors and regulators with more complete and timely information about the financial status of pension plans. The PPA also reformed the PBGC's premium structure to reflect more accurately the cost of the program. Flat rate premiums paid by all plan sponsors were adjusted to reflect the growth in worker wages since 1991, when the current rate was set, and will be indexed going forward. Under-funded plans will no longer be able to use loopholes to avoid paying premiums.

PBGC will be closely involved with the development and publication of regulations to implement the PPA from FY 2007 through FY 2009.

Further reforms are needed, however, to address the $19 billion gap that still exists between the PBGC's liabilities and its assets. The FY 2008 Budget reflects the President's continued commitment to addressing the solvency of the pension system by reproposing the non-enacted premium reforms from the Administration's comprehensive pension reform proposal that were not included in PPA, including:

- Authorizing PBGC's Board of Directors to adjust the variable rate premiums paid by underfunded pension plans.
- Extending the variable rate premium to a plan's non-vested as well as its vested liabilities.

PBGC premiums are currently far lower than what a private financial institution would charge for the same risk. These reforms will improve PBGC's financial condition and safeguard the future benefits of American workers.

PBGC will continue to proactively use its statutory authorities and enforcement powers to protect the interests of the insurance program and its stakeholders. In particular, PBGC will continue to seek to ensure full compliance with the provisions of Title IV of ERISA, to prevent unnecessary and avoidable terminations of underfunded pension plans, to mitigate the risk of losses to the insurance program, and to enhance recoveries in bankruptcy for the benefit of plan participants and the insurance funds.

*Provide Exceptional Service to Customers and Stakeholders*

When PBGC takes over a terminated pension plan, PBGC takes in the plan assets, collects and audits all plan and participant records, and values plan assets and benefit liabilities. PBGC then calculates each participant's benefit under the terms of his or her pension plan. The process of determining benefits payable by PBGC is laborious and time-consuming because the benefit structures and data requirements are different for each of the plans PBGC trustees. In addition, large plans typically have multiple, complex benefit formulas and retirement eligibility provisions. Once the individual benefit calculations are complete, PBGC issues a "benefit determination" to each participant informing them of their final benefit amount and their right to appeal if they disagree with PBGC's determination. After all benefit determinations are issued and appeals are resolved, PBGC performs ongoing benefit administration (placing deferred participants and survivors into pay status, income tax withholding, address and bank account changes, processing death notifications, etc.) for every plan and participant including beneficiaries for the rest of their lives.

To achieve these outcomes (issuing about 400,000 benefit determinations to maintain approximately two and a half year processing for the final benefit determinations), PBGC will undertake the following program initiatives:

- The integration and consolidation of processes and systems to simplify handling of customer requests and concerns;

- Continue process improvements for benefit determinations by implementing and maximizing use of Automated Actuarial Calculations (ARIEL) capability;

- Modernize the case management tracking system to include capability to manage the entire trusteed plan life cycle;

- Promote use of online services by expanding existing online service capabilities for participants through My Pension Benefit Account (MyPBA) and benefit calculation tools;

*Exercise Effective and Efficient Stewardship of PBGC Resources*

PBGC, like any customer-focused organization, relies on recruiting and retaining the best and the brightest for key leadership and staff positions. PBGC has extraordinary requirements for financial and legal skill sets not normally found in a federal government environment. In order to meet challenges to fill these workforce requirements PBGC has established a recruitment program that will go beyond "vacancy posting" in a proactive manner to seek out highly skilled individuals and new college graduates in order to meet today's needs with a view for fulfilling tomorrow's workforce.

**Cost Model**

PBGC requests a total operating budget of $411,151,000 and 870 FTE.

The FY 2008 operating budget request is comprised of three activities:

- Pension Insurance ($74,784,000) includes such functions as the collection and investment of premiums; monitoring, negotiating and litigating protections for participants in endangered plans; prosecuting claims recoveries in terminated plans; and assisting plan practitioners in their dealings with the Corporation.

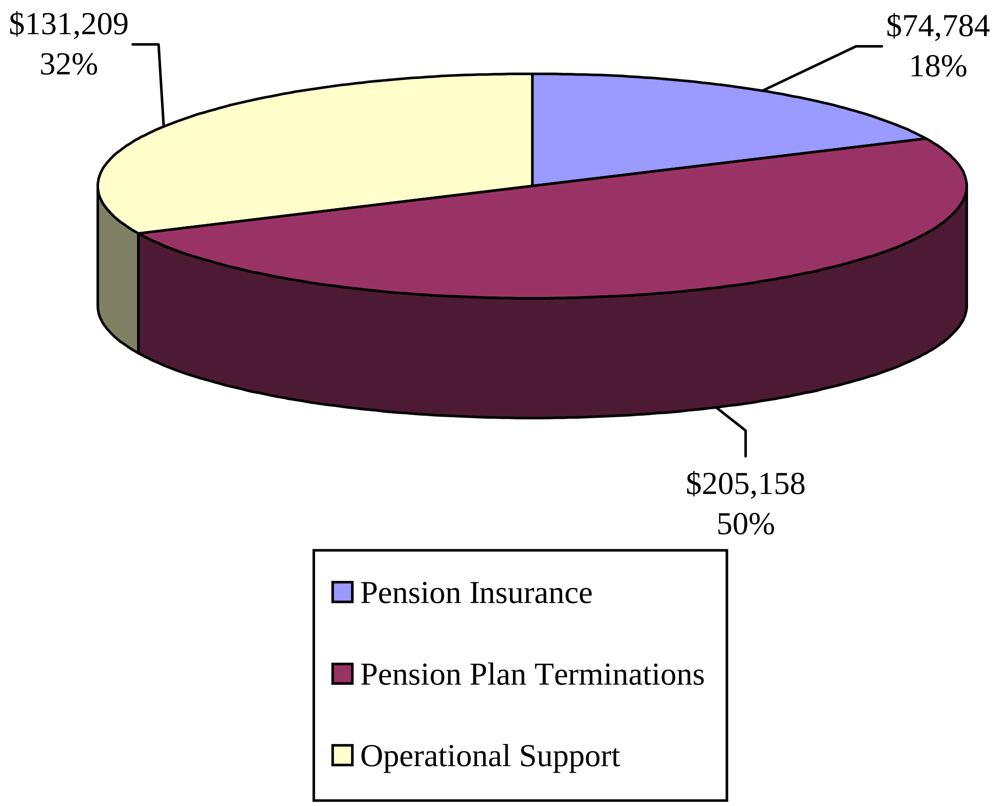
- Plan Terminations and Benefits Administration ($205,158,000) includes the work necessary to fulfill PBGC's responsibilities toward the participants in trusteed plans, including determining and paying the benefits and providing related services.

- Operational Support ($131,209,000) includes the vast range of activities necessary to keep the Corporation working, including facilities, information technology, and other administrative services such as accounting, budget, strategic planning and human resources management.

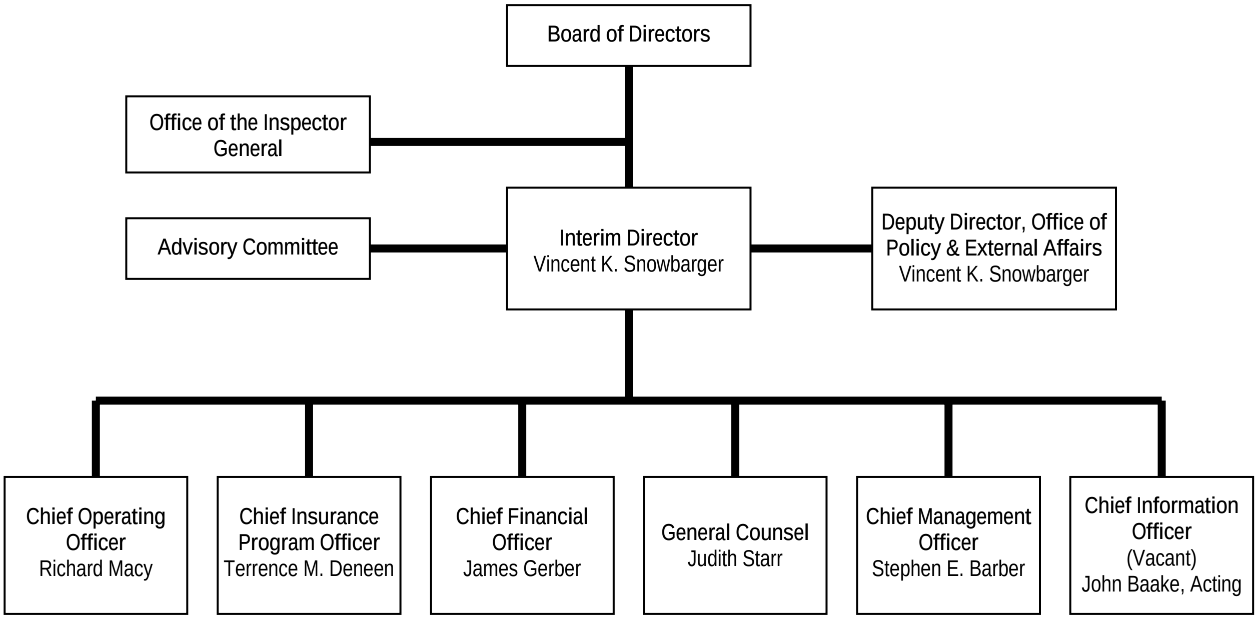
# PENSION BENEFIT GUARANTY CORPORATION

- **FY 2008 Operating Budget Request by Budget Activity**

**Total PBGC Budget Request $411,151**
**(Dollars in thousands)**



# PENSION BENEFIT GUARANTY CORPORATION



# PENSION BENEFIT GUARANTY CORPORATION

## APPROPRIATION LANGUAGE

*The Pension Benefit Guaranty Corporation is authorized to make such expenditures, including financial assistance authorized by section 104 of Public Law 96-364, within limits of funds and borrowing authority available to such Corporation, and in accord with law, and to make such contracts and commitments without regard to fiscal year limitations as provided by section 104 of the Government Corporation Control Act, as amended (31 U.S.C. 9104), as may be necessary in carrying out the program, including associated administrative expenses, through September 30, 2008 for such Corporation: Provided, That none of the funds available to the Corporation for fiscal year 2008 shall be available for obligations for administrative expenses in excess of $411,151,000: Provided further, That to the extent that the number of new plan participants in plans terminated by the Corporation exceeds 100,000 in fiscal year 2008, an amount not to exceed an additional $9,200,000 shall be available for obligation for administrative expenses for every 20,000 additional terminated participants: Provided further, That an additional $50,000 shall be made available for obligation for investment management fees for every $25,000,000 in assets received by the Corporation as a result of new plan terminations, after approval by OMB and notification of the Committees on Appropriations of the House of Representatives and the Senate.*

Note. — This account is operating through Title IV of the Employee Retirement Income Security Act (ERISA) of 1974, as amended, and the Government Corporation Control Act, as amended, which provide PBGC with permanent, indefinite spending authority.   PBGC’s FY2007 reapportionment provides $405,391,000 for administrative expenses.

## EXPLANATION OF LANGUAGE CHANGE

The first change in appropriations language includes a contingency trigger which provides additional administrative funds to the Corporation for termination-related processing and other expenses when the number of participants in terminated plans exceeds 100,000. The language ensures that when there are actual workload increases, the Corporation can take immediate, uninterrupted action to protect the participants' pension benefits.

The second change in appropriations language provides additional funds for investment management fees, as new plans terminate. The provision enables PBGC to continue to prudently manage asset investments to ensure that pension insurance is provided to eligible retirees.

# PENSION BENEFIT GUARANTY CORPORATION

## ANALYSIS OF APPROPRIATION LANGUAGE

| Language Provision | Explanation |
|---|---|
| "…That to the extent that the number of new plan participants in plans terminated by the Pension Benefit Guaranty Corporation exceeds 100,000 in fiscal year 2008, an additional $9,200,000 shall be available for obligation for every 20,000 additional terminated participants." | This appropriations language provides a trigger which provides additional administrative funds to the Corporation when there are extraordinary termination-related expenses. The language ensures that when there are workload increases, the Corporation can take immediate, uninterrupted action to protect participants' pension benefits. |
| "…That an additional $50,000 shall be made available for obligation for investment management fees for every $25,000,000 in assets received by the Corporation as a result of new plan terminations, after approval by OMB and notification of the Committees on Appropriations of the House of Representatives and the Senate". | There is a direct correlation between PBGC's total trust fund assets and the trust fund's investment management fees; that is, as assets increase, fees increase. A plan's termination path through bankruptcy, trusteeship and the eventual arrival at PBGC is episodic and very difficult to predict, yet can have a huge impact on the level of investment management fees for a given year. The growth in investment management fees is being driven now by a tendency of pension plans to invest in alternative (non-traditional) investments in an effort to seek higher investment returns. This appropriations language provides additional funds to pay for investment management services when plan assets grow as a result of new plan terminations. |

# PENSION BENEFIT GUARANTY CORPORATION

| AMOUNTS AVAILABLE for OBLIGATIONS (Dollars in Thousands) | FY 2006 Enacted | | FY 2007 Estimate | | FY 2008 Request | |
|---|---|---|---|---|---|---|
| | FTE | Amount | FTE | Amount | FTE | Amount |
| A. Appropriation | | | | | | |
| Program Activities | | | | | | |
| Single-Employer Program Benefit Payments | 0 | $4,549,000 | 0 | $4,302,000 | 0 | $4,831,000 |
| Multiemployer Program Financial Assistance | 0 | 90,000 | 0 | 93,000 | 0 | 106,000 |
| Administrative Activites | | | | | | |
| Pension Insurance Operations | 220 | $70,185 | 211 | $80,357 | 211 | $74,784 |
| Pension Plan Terminiations | 340 | 198,140 | 335 | 196,567 | 335 | 205,158 |
| Operational Support | 310 | 117,322 | 324 | 128,467 | 324 | 131,209 |
| Total Appropriation Excluding Accruals | 870 | $5,024,647 | 870 | $4,800,391 | 870 | $5,348,151 |
| Offsetting Collections From: | | | | | | |
| Interest on Federal Securities | | $834,000 | | $725,000 | | $691,000 |
| Premium Receipts | | 1,682,000 | | 1,736,000 | | 1,369,000 |
| Benefit Payment Reimbursements | | 1,275,000 | | 1,618,000 | | 1,760,000 |
| Reimbursements from Trust Funds for Administrative Expenses | | 385,647 | | 405,391 | | 411,151 |
| Other Income | | 0 | | 0 | | 0 |
| B. Gross Budget Authority | | $9,201,294 | | $9,284,782 | | $9,579,302 |
| Offsetting Collections Deductions | | | | | | |
| Interest on Federal Securities | | -$834,000 | | -$725,000 | | -$691,000 |
| Premium Receipts | | -1,682,000 | | -1,736,000 | | -1,369,000 |
| Benefit Payment Reimbursements | | -1,275,000 | | -1,618,000 | | -1,760,000 |
| Reimbursements from Trust Funds for Administrative Expenses | | -385,647 | | -405,391 | | -411,151 |
| Other Income | | 0 | | 0 | | 0 |
| C. Obligating Authority Before Committee | | $5,024,647 | | $4,800,391 | | $5,348,151 |
| D. Total Budgetary Resources | | $5,024,647 | | $4,800,391 | | $5,348,151 |
| E. Total, Estimated Obligations | | $5,024,647 | | $4,800,391 | | $5,348,151 |

# PENSION BENEFIT GUARANTY CORPORATION

**SUMMARY OF CHANGES**
**(Dollars in thousands)**

| | FY 2007 Estimate | FY 2008 Request | Net Change |
|---|---|---|---|
| **Obligations by Activity** | | | |
| Program Activities | | | |
| Single-Emplyer Program Benefit Payments | $4,302,000 | $4,831,000 | $529,000 |
| Multi-Employer Program Financial Assistance | 93,000 | 106,000 | $13,000 |
| Subtotal, Program Activities | 4,395,000 | 4,937,000 | 542,000 |
| Operating Budget Activities | | | |
| Pension Insurance Operations | $80,357 | $74,784 | -$5,573 |
| Benefit Administration /Plan Termination and Investment | 196,567 | 205,158 | 8,591 |
| Operational Support | 128,467 | 131,209 | 2,742 |
| Subtotal, Operating Budget Activities | 405,391 | 411,151 | 5,760 |
| **TOTAL** | **$4,800,391** | **$5,348,151** | **$547,761** |
| **Full-Time Equivalent:** | 870 | 870 | 0 |
| **End-of-Year (EOY):** | 940 | 940 | 0 |

| Explanation of Changes | FY 2007 Base FTE | FY 2007 Base Amount | Operating Activities FTE | Operating Activities Amount | Program Activities FTE | Program Activities Amount | Total FTE | Total Amount |
|---|---|---|---|---|---|---|---|---|
| **Increases:** | | | | | | | | |
| **A. Built-ins:** | | | | | | | | |
| To provide for: | | | | | | | | |
| Cost of Pay Adjustments | 0 | $81,754 | 0 | $1,454 | 0 | $0 | 0 | $1,454 |
| Personnel Benefits | 0 | 20,628 | 0 | 530 | 0 | 0 | 0 | 530 |
| Two More Days of Pay | 0 | 0 | 0 | 816 | 0 | 0 | 0 | 816 |
| Travel | 0 | 1,798 | 0 | 38 | 0 | 0 | 0 | 38 |
| Transportation of Things | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Space Rental Payments to Others | 0 | 22,159 | 0 | 830 | 0 | 0 | 0 | 830 |
| Communications, Utilities, and Miscellaneous Charges | 0 | 6,012 | 0 | 126 | 0 | 0 | 0 | 126 |
| Printing and Reproduction | 0 | 507 | 0 | 11 | 0 | 0 | 0 | 11 |
| Other Services | 0 | 260,792 | 0 | 6,014 | 0 | 0 | 0 | 6,014 |
| Purchaes of Goods and Services from Other Government | 0 | 1,635 | 0 | 34 | 0 | 0 | 0 | 34 |
| Supplies and Materials | 0 | 2,750 | 0 | 58 | 0 | 0 | 0 | 58 |
| Equipment | 0 | 7,355 | 0 | 154 | 0 | 0 | 0 | 154 |
| Subtotal, Operating Activities | 0 | $405,391 | 0 | $10,065 | 0 | $0 | 0 | $10,065 |
| Built-Ins Subtotal | **0** | **$405,391** | **0** | **$10,065** | **0** | **$0** | **0** | **$10,065** |
| **B. Programs:** | | | | | | | | |
| To provide for: | | | | | | | | |
| Increased investment management fees due to asset growth, asset mix, investment strategies, etc. | 0 | $44,183 | 0 | $5,000 | 0 | $0 | 0 | $5,000 |
| Subtotal, Operating Budget Increases | **0** | **$44,183** | **0** | **$5,000** | **0** | **$0** | **0** | **$5,000** |
| To provide for: | | | | | | | | |
| Increased Cost of Benefit Payments | 0 | $4,302,000 | 0 | $0 | 0 | $529,000 | 0 | $529,000 |
| Increased Cost of Financial Assistance | 0 | 93,000 | 0 | 0 | 0 | 13,000 | 0 | 13,000 |
| Subtotal, Program Budget Increases | 0 | $4,395,000 | 0 | $0 | 0 | $542,000 | 0 | $542,000 |
| **C. Financing:** | | | | | | | | |
| Subtotal, Financing | 0 | $0 | 0 | $0 | 0 | $0 | 0 | $0 |
| **Total Increase** | | | **0** | **$15,065** | **0** | **$542,000** | **0** | **$557,065** |

# PENSION BENEFIT GUARANTY CORPORATION

**SUMMARY OF CHANGES (Continued)**
**(Dollars in thousands)**

| Explanation of Changes | FY 2007 Base FTE | FY 2007 Base Amount | Operating Activities FTE | Operating Activities Amount | Program Activities FTE | Program Activities Amount | Total FTE | Total Amount |
|---|---|---|---|---|---|---|---|---|
| **Decreases:** | | | | | | | | |
| **A. Built-In Decreases** | | | | | | | | |
| To eliminate the one time FY 2006 unobligated carry forward balance | 0 | $3,745 | | -$3,745 | | | | -$3,745 |
| Built-Ins Subtotal | **0** | **$3,745** | **0** | **-$3,745** | **0** | **$0** | **0** | **-$3,745** |
| **B. Program Decreases** | | | | | | | | |
| To eliminate upfront costs of Risk Management and Legal Matter Management | 0 | $3,952 | 0 | -$2,862 | 0 | $0 | 0 | -$2,862 |
| To eliminate non-recurring costs of the Consolidated Financial System Development | 0 | 4,100 | 0 | -2,692 | 0 | 0 | 0 | -2,692 |
| Subtotal, Operating Budget Decreases | **0** | **$8,052** | **0** | **-$5,554** | **0** | **$0** | **0** | **-$5,554** |
| **C. Financing:** | | | | | | | | |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal, Financing | **0** | **$0** | **0** | **$0** | **0** | **$0** | **0** | **$0** |
| **Total Decrease** | **0** | **$11,797** | **0** | **-$9,299** | **0** | **$0** | **0** | **-$9,299** |
| **Total Change** | | | **0** | **$5,766** | **0** | **$542,000** | **0** | **$547,766** |

# PENSION BENEFIT GUARANTY CORPORATION

| SUMMARY BUDGET AUTHORITY and FTE by ACTIVITY (Dollars in Thousands) | FY 2006 Enacted | | FY 2007 Estimate | | FY 2008 Agency Request | |
|---|---|---|---|---|---|---|
| | FTE | Amount | FTE | Amount | FTE | Amount |
| | | | | | | |
| Budget Activities | 0 | $4,639,000 | 0 | $4,395,000 | 0 | $4,937,000 |
| Single Employer Program Benefit Payments | | 4,549,000 | | 4,302,000 | | 4,831,000 |
| Multi-employer Program Financial Assistance | | 90,000 | | 93,000 | | 106,000 |
| | | | | | | |
| Administrative Activities | 870 | $385,647 | 870 | $405,391 | 870 | $411,151 |
| Pension Insurance | 220 | 70,185 | 211 | 80,357 | 211 | 74,784 |
| Benefits Administration / Plan Terminations | 340 | 198,140 | 335 | 196,567 | 335 | 205,158 |
| Operational Support | 310 | 117,322 | 324 | 128,467 | 324 | 131,209 |
| | | | | | | |
| **Total** | **870** | **$5,024,647** | **870** | **$4,800,391** | **870** | **$5,348,151** |

# PENSION BENEFIT GUARANTY CORPORATION

| BUDGET AUTHORITY by OBJECT CLASS (Dollars in Thousands) | FY 2006 Enacted | FY 2007 Estimate | FY 2008 Request | FY08 Request/ FY07 NTE Current Rate |
|---|---|---|---|---|
| Total Number of Full Time Permanent Positions | 906 | 906 | 906 | 0 |
| Full-time Equivalent | 870 | 870 | 870 | 0 |
| Full-Time Permanent | 850 | 850 | 850 | 0 |
| Other | 20 | 20 | 20 | 0 |
| Reimbursable | | | | |
| Total | 870 | 870 | 870 | 0 |
| Average ES Salary | $145.1 | $148.2 | $152.1 | 1 |
| Average GM/GS Grade | 11.80 | 12.10 | 12.10 | 0 |
| Average GM/GS Salary | $84.50 | $85.20 | $87.50 | 2 |
| Average Salary of Ungraded Positions | | | | |
| | | | | |
| 11.1 Full-time Permanent | 72,119 | 77,464 | 80,233 | 2,769 |
| 11.3 Other than Full-Time Perm. | 1,700 | 1,706 | 1,700 | -6 |
| 11.5 Other Personnel Compensation | 1,700 | 2,584 | 2,090 | -494 |
| 11.8 Special Perosnnel Services | 0 | 0 | 0 | 0 |
| 11.9 Total Personnel Compensation | 75,519 | 81,754 | 84,023 | 2,269 |
| 12.1 Civilian Personnel Benefits | 17,630 | 20,628 | 21,158 | 530 |
| 13.0 Benefits for Former Personnel | 0 | 0 | 0 | 0 |
| 21.0 Travel and Trans. of Persons | 2,149 | 1,798 | 1,836 | 38 |
| 22.0 Transportation of Things | 1 | 1 | 1 | 0 |
| 23.1 Rental Payments to GSA | | | | 0 |
| 23.2 Rental Payments to Others | 21,882 | 22,160 | 22,972 | 813 |
| 23.3 Comm., Utilities & Misc. | 6,263 | 6,011 | 6,135 | 123 |
| 24.0 Printing and Reproduction | 560 | 506 | 517 | 11 |
| 25.1 Advisory and Assistance Services | 0 | 0 | 0 | 0 |
| 25.2 Other Services | 251,086 | 260,728 | 262,522 | 1,730 |
| 25.3 Purchases from Gov't Accounts | 1,600 | 1,700 | 1,669 | 34 |
| 25.5 Purchases of Goods and Services from Other Government Accounts 1/ | | | | 0 |
| 25.7 Oper. And Maint. Of Equipment | | | | 0 |
| 26.0 Supplies and Materials | 2,114 | 2,750 | 2,808 | 58 |
| 31.0 Equipment | 6,842 | 7,356 | 7,510 | 154 |
| 33.0 Investments and Loans | 90,000 | 93,000 | 106,000 | 13,000 |
| 41.0 Grants, Subsidies and Contributions | | | | 0 |
| 42.0 Insurance Claims and Indemnities | 4,549,000 | 4,302,000 | 4,831,000 | 529,000 |
| **Total** | **5,024,647** | **4,800,392** | **5,348,151** | **547,760** |

# PENSION BENEFIT GUARANTY CORPORATION

| APPROPRIATION HISTORY (Dollars in Thousands) | | | | | |
|---|---|---|---|---|---|
| FY | Budget Estimates to Congress | House Allowance | Senate Allowance | Obligating Authority | FTE |
| 1997 | $140,539 | $140,539 | $140,539 | $140,539 | 731 |
| 1998 | $148,000 | $148,000 | $148,000 | $148,000 | 731 |
| 1999 | 158,682 | 158,682 | 158,682 | 158,682 | 754 |
| 2000 | 164,951 | 164,951 | 164,951 | 164,951 | 754 |
| 2001 | 176,500 | 176,500 | 176,500 | 190,576 1/ | 754 |
| 2002 | 189,880 | 189,880 | 189,880 | 227,162 2/ | 754 |
| 2003 | 192,894 | 192,894 | 192,894 | 270,504 3/ | 752 |
| 2004 | 228,772 | 228,772 | 228,772 | 293,914 4/ | 801 |
| 2005 | 266,330 | 266,330 | 266,330 | 350,556 5/ | 851 |
| 2006 | 296,978 | 296,978 | 296,978 | 385,647 6/ | 870 |
| 2007 | 397,645 | 397,645 | 397,645 | 405,391 7/ | 870 |
| 2008 | 411,151 | | | | 870 |

1/ This amount reflects reapportionments for a total of $14,076,000 due to unexpected increased workload.

2/ This amount reflects reapportionments for a total of $37,282,000 due to unexpected increased workload.

3/ This amount reflects reapportionments for a total of $77,610,000 due to unexpected increased workload.

4/ This amount reflects reapportionments for a total of $65,142,000 due to unexpected increased workload.

5/ This amount reflects reapportionments for a total of $46,592,000 due to unexpected increased workload.

6/ This amount reflects reapportionments for a total of $88,669,000 due to unexpected increased workload.

7/ This amount reflects reapportionments for a total of $7,746,000 due to unexpected increased workload.

# PENSION INSURANCE

## Operating Budget Activity #1

| (Dollars in Thousands) | FY 2006 Enacted | FY 2007 Estimate | Diff FY06 Enact./ FY07 Est. | FY 2008 Request | Diff FY07 Est./ FY08 Req |
|---|---|---|---|---|---|
| **Activity Appropriation** | $70,185 | $80,357 | $10,172 | $74,784 | -$5,573 |
| **FTE** | 220 | 211 | -9 | 211 | 0 |

**<u>Introduction</u>**

The Pension Insurance Activities comprise work directly associated with pension insurance for *new and ongoing* plans. The functions of this activity include risk assessment and management, technical assistance to existing plans, promotion of new plans, and the collection and investment of plan premiums. This activity includes resources needed to identify, monitor, and mitigate significant risks to the PBGC, through negotiation and litigation.

PBGC's efforts in this area of the business represent its limited, but critically important means of managing risk and reducing the potential losses in the future through negotiation and litigation. Risk assessment and risk management are high priorities of the Corporation.

**<u>Five-Year Budget Activity History</u>**

| Fiscal Year | Funding | FTE |
|---|---|---|
| 2003 | N/A | N/A |
| 2004 | $43,492 | 199 |
| 2005 | 54,392 | 211 |
| 2006 | 70,186 | 220 |
| 2007 | 80,357 | 211 |

**<u>FY 2008 / FY 2007</u>**

PBGC plans to publish regulations in 2007 implementing the flat-rate premium increase, the variable-rate premium changes, and the new termination premium requirement from the Pension Protection Act of 2006. Other provisions and regulations of PPA will be coordinated and issued during FY 2008 and beyond.

In addition, a new system, Premium and Practitioner System (PPS) (related Exhibit 300[1] is available at PBGC - Premium Accounting) to be fully integrated with the new Consolidated Financial System (CFS), has been designed to further improve timeliness and accuracy in premium operations. The new system will strengthen financial management and customer service capabilities, and will be supplemented with updated documentation of procedures for processing and estimating premiums. The contract to implement PPS was awarded at the end of FY 2006 and implementation will occur in FY 2008.

[1] The Exhibit 300 is the capital asset plan and business case summary for major projects.

Also, the development of the EFAST2 system will ensure more accurate data; eliminate the need to duplicate entry of 20% of the current data load retrieved from IRS Form 5500 Schedule B and its attachments for approximately 600 pension plans used in PBGC's Pension Insurance Modeling System (PIMS). Under EFAST2, the information will be transmitted in real time, providing researchers with Form 5500 filing data months sooner than is currently available. Further, the data will improve our pension industry analysis and forecasting capabilities. This data is the only source of information on the full universe of private pension plans. More timely and accurate data will help PBGC fulfill its mission to safeguard the pension insurance system. This project is spearheaded by the Department of Labor, although funding is divided among DOL, PBGC and IRS.

PBGC will also continue monitoring economic data, market performance indicators and industry developments to identify emerging risks to the pension system and to provide timely information for analysis of potential plan liabilities. The large terminations over the last few years underscore the need to better forecast problems in the universe of insured plans, as well as to come up with meaningful responses before these plans reach the point where they must terminate. In the long run, the best service PBGC can provide to participants and the defined benefit pension system is to make sure participants receive their full benefits from healthy, ongoing plans.

Continuous program initiatives include the following: 1) analyze credit, investment, and actuarial risks to the pension insurance programs and build and improve risk models to quantify and measure the impact of these risks to the insurance programs; 2) automate the collection and integration of external and internal information to enhance analyses of pension plans and plan sponsors' financial condition; 3) continue coordination with IRS and DOL in responding to risks that reach across organizational boundaries; 4) continue vigorous bankruptcy litigation efforts; 5) explore, develop, and implement incentives/settlements to prevent plan sponsor initiated terminations and maximize recoveries; and 6) promulgate regulations that are understandable, flexible, relevant, and not duly burdensome.

**FY 2006**

One of the PBGC's noteworthy successes in 2006 was its intervention in avoiding losses and obtaining recoveries in bankruptcy cases involving the termination of large, poorly funded pension plans. In eight large bankruptcy cases resolved in 2006, the PBGC avoided or mitigated losses of nearly $4 billion from an exposure approaching $13 billion in unfunded benefit liabilities.

In addition, proposed amendments to ERISA were included in the President's FY 2006 and FY 2007 Budgets to Congress. The PBGC actively supported the Administration's comprehensive pension reform proposal through congressional testimony, news releases, speeches and interviews. On February 8, 2006, the Deficit Reduction Act of 2005 was enacted, which increased flat-rate premiums for single-employer and multiemployer plans and established a termination premium for certain single-employer plans. On August 17, 2006, the President signed into law the Pension Protection Act, which includes new plan funding rules, new provisions for pension plan transparency, and additional reforms to the premium structure for defined benefit plans.

| WORKLOAD SUMMARY | FY 2006 Estimate | FY 2007 Target | FY 2008 Target |
|---|---|---|---|
| **Budget Activity #1: Pension Insurance** | | | |
| Active Cases Monitored | 800 | 800 | 800 |
| Transactions Under Review | 550 | 600 | 600 |
| Cases in Court / Litigation | 195 | 265 | 265 |
| New Bankruptcy Cases | 150 | 132 | 132 |

# PENSION INSURANCE

| CHANGES IN FY 2008<br>(Dollars in Thousands)<br><br>**Activity Changes** | | |
|---|---|---|
| **Built-ins:** | | |
| To provide for: | | |
| Cost of Pay Adjustments | | $746 |
| Personnel Benefits | | 188 |
| Employee Health Benefits | | 0 |
| Two More Days of Pay | | 211 |
| Federal Employees Compensation Act (FECA) | | 0 |
| Travel | | 7 |
| Transportation of Things | | 0 |
| Space Rental Payments to Others | | 0 |
| Communications, Utilities, and Miscellaneous Charges | | 0 |
| Printing and Reproduction | | 1 |
| Advisory and Assistive Services | | 0 |
| Other Services | | -3,874 |
| Working Capital Fund | | 0 |
| Purchaes of Goods and Services from Other Government | | 5 |
| Operation and Maintenance of Equipment | | 0 |
| Supplies and Materials | | 3 |
| Equipment | | 2 |
| **Total Built-In** | | -$2,711 |
| | | |
| Net Financing | | $0 |
| | | |
| Net Program | | -$2,862 |
| | | |
| | **Estimate** | **FTE** |
| **Base:** | $80,357 | 211 |
| **Program Increase/Decrease** | -$2,862 | 0 |

# PENSION INSURANCE

**Pension Benefit Guaranty Corporation**
**Budget Activity: Pension Insurance**
**Performance Budget Issue Paper**

**Risk Management, Early Warning and Legal Matter Management Systems Decreases**

**Applicable Performance Goal:**
PBGC's resources are devoted to the accomplishment of the Secretary's second strategic goal of "Strengthened Economic Protections".

The Risk Management Early Warning System Performance Budget Issue Paper is related to PBGC's Strategic Goal 1: Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and the other stakeholders.

**Requested Resources:**

A total of $1,090,000 is requested, a decrease of $2,862,000 from the FY 2007 estimate.

**Rationale/Strategy and Performance Impact Related to Resource Decrease:**

Automating the Risk Management and Early Warning System and the Legal Matter Management System (LMM) in FY 2007 will move the project from development to "steady-state" in FY 2008. (Exhibit 300 is available at PBGC - Risk Management and Early Warning / Legal Management.) The system will enable PBGC to identify, analyze, quantify, and respond to events that increase the risk to PBGC-insured pension plans in a much more systematic and timely manner. The Risk Management and Early Warning System will synthesize information from a wide array of private and government information sources to provide analysts an earlier and more systematic view of which plan sponsors warrant PBGC action to mitigate risk. The new LMM will put the best possible technology and support on the desktops of the lawyers and other professionals who are essential to PBGC's ERISA & Bankruptcy law practice. The technology will improve targeted levels of service under increasing workloads and reorganization, and resolve issues associated with current LMM software. This will improve legal support to PBGC strategic goals, make better use of professional resources, and provide better management reporting, covering case inventory and status and performance measures. This integrated IT system will aid PBGC in alerting the Administration and Congress of risk exposure and better allocate resources to more quickly address the most significant risks.

**Base Level Funding:**

Base:
Estimate: $3,952,000 FTE: 0

**Program Performance at Request Level:**

The request level in FY2008 provides for operation and maintenance (steady-state) of the new system planned for implementation in FY 2007 (development).

Program Decrease:

# PENSION INSURANCE

Estimate: -$2,862,000 FTE: 0

**Object Class ($ in thousands):**

| | Object Class | FY 2008 Agency Request |
|---|---|---|
| 25.2 | Other Services | -$2,862 |
| | TOTAL | -$2,862 |

## Operating Budget Activity #2

| (Dollars in Thousands) | FY 2006 Enacted | FY 2007 Estimate | Diff FY06 Enact./ FY07 Est. | FY 2008 Request | Diff FY07 Est./ FY08 Req |
|---|---|---|---|---|---|
| **Activity Appropriation** | $198,140 | $196,567 | -$1,573 | $205,158 | $8,591 |
| **FTE** | 340 | 335 | -5 | 335 | 0 |

### Introduction

The budget activity for Plan Termination and Benefits Administration activity includes the great majority of the work carried out by the Corporation. It includes the day-to-day work necessary to pay plan benefits to participants in trusteed plans and provide financial assistance to multiemployer plans. This budget activity also covers all direct costs related to plan termination and trusteeship, and benefits administration.

Major operations under this budget activity include service to participants when plans do terminate, including paying estimated benefits immediately and moving expeditiously to determine the final amount of federally guaranteed benefits and investment management of PBGC's trusteed assets.

Terminating and trusteeing plans requires an intricate series of actions. When PBGC takes over pension plans, the majority of the processing efforts and costs occur within the first three years, but remain in PBGC's inventory of plans and participants indefinitely; i.e., over the life of the participants. These costs include audits of plan assets and actuarial valuations according to the plan's unique features and complex suite of ERISA guarantees and limitations. Ongoing long-term costs include benefits administration (customer service) activities such as changes in participant names and addresses, beneficiary designations, making monthly annuity payments, answering customer questions, etc.

### Five-Year Budget Activity History

| Fiscal Year | Funding | FTE |
|---|---|---|
| 2003 | N/A | N/A |
| 2004 | $159,702 | 314 |
| 2005 | 190,558 | 324 |
| 2006 | 198,140 | 340 |
| 2007 | 196,567 | 335 |

### FY 2008 / FY 2007

By the end of FY 2008 PBGC expects to provide services to over 1,400,000 participants. By comparison, PBGC had about 900,000 participants for which it was providing services at the end of FY 2004.

As a result of the unprecedented number of participants in newly terminated plans, over the last few years the Corporation's inventory of benefit determinations to be issued has grown substantially. PBGC must respond by ramping up the production of benefit determinations. During FY 2007 and FY 2008, the primary focus will be to maintain approximately two and a half year processing for final benefit determinations. Assuming the intake of 100,000 participants in FY 2007 and FY 2008, this will require the issuance of about 400,000 benefit determinations, a processing level that substantially exceeds the Corporation's highest level of production for any two-year period.

To achieve these outcomes, program activity includes the following: 1) enhance customer service to participants and practitioners with the integration and consolidation of processes and systems to simplify handling of customer requests and concerns; 2) continue process improvements for benefits determination by implementing and maximizing use of Automated Actuarial Calculations (ARIEL) capability, and integrating Customer Relationship Management (CRM) with Spectrum for a unified benefit administration desktop; 3) promote use of online services by expanding existing online service capabilities for participants and practitioners through My Plan Administration Account (MyPAA), My Pension Benefit Account (MyPBA), and benefit calculation tools; 4) evaluate and improve clarity and timeliness of participant benefit appeals decisions and timeliness in responding to disclosure requests; 5) modernize the case management tracking system to include capability to manage the entire plan life cycle; and 6) streamline participant and plan data acquisition. (Exhibit 300 is available at PBGC - Participant Services.)

**FY 2006**

During FY 2006, PBGC trusteed 86 plans with 46,000 new participants and issued 152,000 benefit determinations. The inventory of final benefit determinations was reduced from 470,000 at the beginning of the year to 363,000 at the end of the year.

PBGC implemented several information technology projects to keep up with growing workloads and improving customer service, continuing work begun in the prior year. PBGC continued progress on the development of electronic filing systems. The systems allow for electronic filing by pension plan practitioners, automated benefit valuations, and on-line services for participants.

**WORKLOAD SUMMARY**

| | FY 2006 Enacted | FY 2007 Estimate | FY 2008 Target |
|---|---|---|---|
| **Workload A:** | **Benefit Determinations to Be Issued** | | |
| **Beginning Inventory of Benefits Determinations to be Issued** | **470,000** | **364,000** | **294,000** |
| Baseline Receipts (New Participants) | 46,000 | 100,000 | 100,000 |
| Benefits Determinations Issued | 152,000 | 170,000 | 170,000 |
| **Ending Inventory** | **364,000** | **294,000** | **224,000** |
| **Workload B:** | **Total Participants Administered** | | |
| **Total Participants (Beginning of Year)** | **1,196,000** | **1,242,000** | **1,342,000** |
| New Participants (Receipts) | 46,000 | 100,000 | 100,000 |
| **Total Participants (End of Year)** | **1,242,000** | **1,342,000** | **1,442,000** |

| CHANGES IN FY 2008<br>(Dollars in Thousands) | | |
|---|---|---|
| **Activity Changes** | | |
| **Built-ins:** | | |
| To provide for: | | |
| Cost of Pay Adjustments | | $318 |
| Personnel Benefits | | 147 |
| Employee Health Benefits | | 0 |
| Two More Days of Pay | | 289 |
| Federal Employees Compensation Act (FECA) | | 0 |
| Travel | | 22 |
| Transportation of Things | | 0 |
| Space Rental Payments to Others | | 139 |
| Communications, Utilities, and Miscellaneous Charges | | 91 |
| Printing and Reproduction | | 4 |
| Advisory and Assistive Services | | 0 |
| Other Services | | 2,529 |
| Working Capital Fund | | 0 |
| Purchases of Goods and Services from Other Government | | 21 |
| Operation and Maintenance of Equipment | | 0 |
| Supplies and Materials | | 10 |
| Equipment | | 20 |
| **Total Built-In** | | $3,590 |
| | | |
| Net Financing | | $0 |
| | | |
| Net Program | | $5,000 |
| | | |
| | **Estimate** | **FTE** |
| **Base:** | $196,567 | 335 |
| **Program Increase/Decrease** | $5,000 | 0 |

**Pension Benefit Guaranty Corporation**
**Budget Activity: Pension Plan Termination and Benefit Administration**
**Performance Budget Issue Paper**
**Trust Fund Investment Management Fees**

**Applicable Performance Goal:**

PBGC's resources are devoted to the accomplishment of the Secretary's strategic goal of "Strengthened Economic Protections".

PBGC Strategic Goal 1: Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders.

PBGC Strategic Goal 2: Provide exceptional service to customers and stakeholders.

**Requested Resources:**

A total of $49,183,000 is requested for the FY 2008 Trust Fund Investment Management Fees, an increase of $5,000,000 from the FY 2007 estimate.

The increase is attributed to the following factors:

- the requirement to engage Investment Management firm(s) to manage and liquidate PBGC's existing Private Equity portfolio and increased management costs covering approximately $1.8 billion in additional complex alternative investments to be received from probable terminations including two major airlines;

- the projected increase to assets under management due to the compounding effect of forecasted asset growth rates for equities (13%) and fixed income (7%);

- the implementation of the revised Investment Policy Statement permitting international investing.

The following provides a comparison of trust fund assets and investment manager fees for the five year period, FY 2004 to FY 2008.

**Trust Assets & Investment Fee Comparison**

| | FY 2004 Actual | FY 2005 Actual | FY 2006 Actual | FY 2007 Projected | FY 2008 Projected |
|---|---|---|---|---|---|
| Trust Assets | $21.3B | $32.6B | $35.0B | $38.5B | $41.7B |
| Fees | $15.5M | $25.7M | $36.4M | $44.2M | $49.2M |

**Rationale/Strategy and Performance Impact Related to Resource Increase in FY 2007**

There is a direct correlation between the Corporation's total trust fund assets and the trust fund's investment management fees, (i.e., as assets increase, fees increase). Each large plan termination's path through bankruptcy, trusteeship and the eventual arrival date at PBGC's doorstep is episodic in nature and very difficult to predict, yet can have a huge impact on the level of investment management fees for a given year. In addition, the growth in investment management fees is being driven now and for the foreseeable future by an increasing tendency of pension plans to invest in alternative investments to seek higher investment returns.

These alternative assets require extended holding periods before sale opportunities can be developed and fair market values achieved given 1) the complex and unique nature of private equity limited partnerships, 2) the diversification and quality of a given private equity portfolio, and 3) the challenges of accessing secondary markets in an orderly manner to achieve fair value.

Other factors contributing to the fee increases include the 1) rollover and recompetition of the Corporation's older investment management and custodian bank contracts (6 years old in some cases) to higher fee contracts due to a general rise in market fees over time, 2) increased demands of complex long duration asset liability management strategy, and 3) limited transition (under 5% of our assets) into international securities beginning in FY 2006 (e.g., higher custodial fees). However, it is very important to note that investment management fees in all cases continue to be well under comparable market based investment management fees.

**Base Level Funding:**

Base:
Estimate: $44,183,000 FTE: 0

**Program Performance at Request Level:**

The requested increase is essential to enable PBGC to continue to effectively safeguard, invest and manage PBGC's investments in order to fulfill its role of providing pension insurance to eligible retirees and to meet the Secretary's and PBGC's strategic goals and objectives. This includes implementing PBGC's new Investment Policy Statement while managing the transition and liquidation of current and future assets associated with significant, large new plan terminations which include complex, illiquid and more costly alternative investments.

A prudently managed and funded investment program serves not only current and future participants, but also the PBGC, its Board of Directors and the Administration as we seek to carry out our mandate to protect and promote the health and well being of America's defined benefit pension plans.

Program Increase:
Estimate: $5,000,000 FTE: 0

**Object Class ($ in Thousands):**

| | Object Class | FY 2008 Agency Request |
|---|---|---|
| 25.2 | Other Services | $49,183 |
| | TOTAL | $49,183 |

# OPERATIONAL SUPPORT

## Operating Budget Activity #3

| (Dollars in Thousands) | FY 2006 Enacted | FY 2007 Estimate | Diff FY06 Enact./ FY07 Est. | FY 2008 Request | Diff FY07 Est./ FY08 Req |
|---|---|---|---|---|---|
| **Activity Appropriation** | $117,322 | $128,467 | $11,145 | $131,209 | $2,742 |
| **FTE** | 310 | 324 | 14 | 324 | 0 |

**Introduction**

The budget activity of "Operational Support" comprises the shared program and management support work necessary for the frontline operations of the Corporation to function. This includes non-trusteeship legal activities, policy and regulations, and the management of the Corporation's human capital, information technology (IT) infrastructure, budget, procurement, general accounting and auditing. It also includes program functions related to both of PBGC's insurance and benefits administration activities, such as program research, policy, and regulations.

**Five-Year Budget Activity History**

| Fiscal Year | Funding | FTE |
|---|---|---|
| 2003 | N/A | N/A |
| 2004 | $90,720 | 293 |
| 2005 | 105,606 | 306 |
| 2006 | 117,323 | 310 |
| 2007 | 128,467 | 324 |

**FY 2008 / FY 2007**

Significant plans and initiatives in this Activity will be ongoing through both FY 2007 and FY 2008. Program activity includes the following: 1) continue implementing re-designed business process and a Consolidated Financial System to strengthen financial operations and integration; 2) strengthen the audit follow-up program to ensure that recommendations are resolved in a timely manner, and establish a corporate-wide tracking system; 3) continue building a performance-based culture that improves accountability, organizational performance, employee engagement and morale; 4) upgrade or replace technology infrastructure components to improve systems reliability and security consistent with service level agreements (Exhibit 300 is available at PBGC - IT Infrastructure); 5) identify and implement innovative best practices to increase competitive and performance based procurements; and 6) enhance performance measurement and reporting system to support accountability and informative decision making.

**FY 2006**

PBGC continued its commitment to stewardship and a results-oriented public service, following the President's Management Agenda as illustrated below.

PBGC completed the first phase of a multi-year effort to consolidate and improve core financial management systems. On October 1, 2006, the Consolidated Financial System (CFS) became the new system of record consolidating three general ledger systems and our budget execution and administrative payments system into a single integrated environment. The passing of this major milestone positions PBGC closer to the resolution of this reportable condition. Also, for the 14th consecutive year, PBGC received an unqualified "clean" audit opinion from its independent financial auditor.

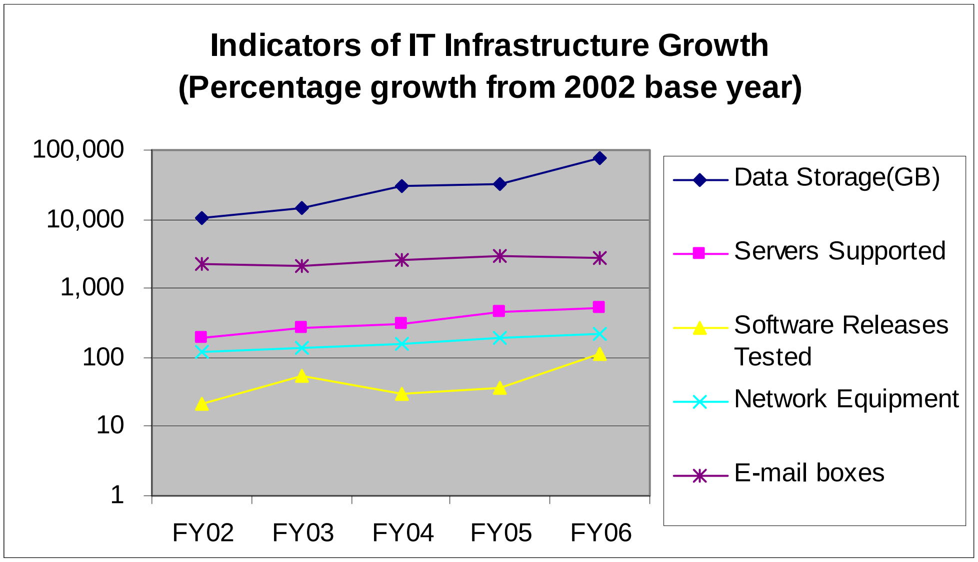
PBGC continued to implement its Human Capital Strategic Plan, focusing on recruiting and retaining top talent, developing emerging leaders for succession planning, promoting a results-oriented culture, developing information technology skills and maximizing the use of information technology resources. Management performance plans were improved to align performance expectations with organizational goals. PBGC received the 2006 Optimas Award from Workforce Management magazine in the Managing Change category for PBGC's Project Management Curriculum.

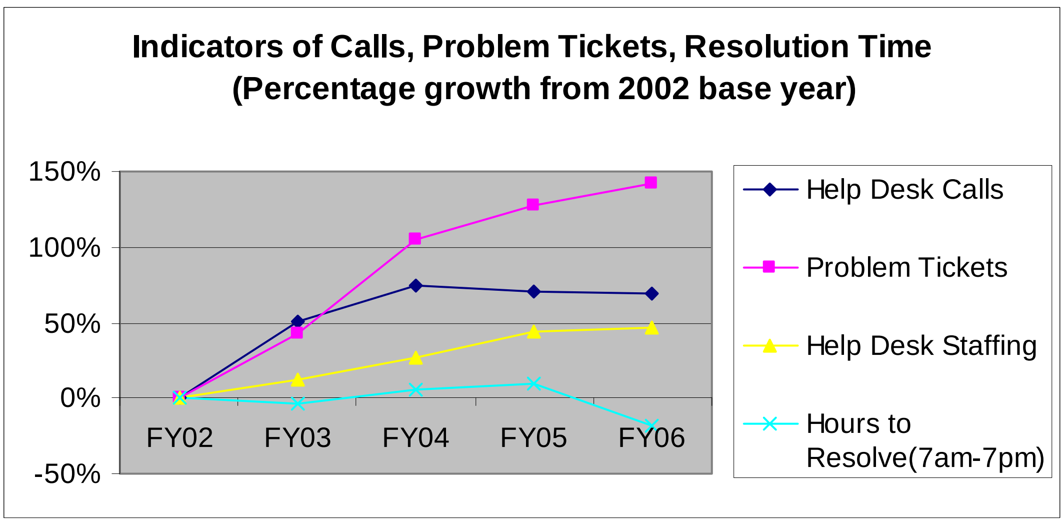
The Corporation continued as a government leader in outsourcing certain services, creating a competitive-based work environment. Two-thirds of PBGC's budget is allocated to contracts employing some 1400 contract staff to supplement 870 Federal staff.

Significant progress was made in developing Enterprise Information Security Policies and an Enterprise-wide Security Plan with implementation in the final stages. Risk assessment and system security plans for all significant financial management applications and general support systems have either been completed or initiated. PBGC is working on a comprehensive framework to formalize its progress under the Certification and Accreditation program to ensure compliance with NIST Special Publication 800-37, "Guide for the Security Certification and Accreditation of Federal Information Systems".

Lastly, the Corporation established an organizational framework and responsibilities for comprehensive contingency planning, including continuity of operations, occupant, emergency and pandemic influenza plans.

# OPERATIONAL SUPPORT



# OPERATIONAL SUPPORT

| CHANGES IN FY 2008<br>(Dollars in Thousands) | | |
|---|---|---|
| **Activity Changes** | | |
| **Built-ins:** | | |
| To provide for: | | |
| Cost of Pay Adjustments | | $389 |
| Personnel Benefits | | 195 |
| Employee Health Benefits | | 0 |
| Two More Days of Pay | | 316 |
| Federal Employees Compensation Act (FECA) | | 0 |
| Travel | | 9 |
| Transportation of Things | | 0 |
| Space Rental Payment to Others | | 674 |
| Communications, Utilities, and Miscellaneous Charges | | 32 |
| Printing and Reproduction | | 5 |
| Advisory and Assistive Services | | 0 |
| Other Services | | 3,629 |
| Working Capital Fund | | 0 |
| Purchaes of Goods and Services from Other Government | | 8 |
| Operation and Maintenance of Equipment | | 0 |
| Supplies and Materials | | 45 |
| Equipment | | 133 |
| **Total Built-In** | | $5,435 |
| | | |
| Net Financing | | $0 |
| | | |
| Net Program | | -$2,692 |
| | | |
| | **Estimate** | **FTE** |
| **Base:** | $128,467 | 324 |
| **Program Increase/Decrease** | -$2,692 | 0 |

# OPERATIONAL SUPPORT

**Pension Benefit Guaranty Corporation**
**Budget Activity: Operational Support**
**Performance Budget Issue Paper**
**Consolidated Financial System Decrease**

**Applicable Performance Goal:**

PBGC's resources are devoted to the accomplishment of the Secretary's strategic goal of "Strengthened Economic Protections".

PBGC Strategic Goal 3: Exercise effective and efficient stewardship of PBGC resources.

**Requested Resources:**

A decrease of $2,692,000 is requested from the FY 2007 estimate.

**Rationale/Strategy and Performance Impact Related to Resource Decrease:**

In the FY 2007 Congressional Budget, PBGC requested funding to cover the costs of replacing PBGC's current collection of independently developed and maintained financial systems. With an integrated set of common financial applications, the new system originated from a single commercial off-the-shelf source that adheres to JFMIP requirements for integrated agency financial systems. The Financial Systems Consolidation effort supports the Corporation's goals relative to the "Improved Financial Performance" component of the President's Management Agenda. (Related Exhibit 300 is available at PBGC - Consolidated Financial Systems.)

The decrease is attributable to the fact that while the project is currently in progress, PBGC anticipates key components will be completed near the end of FY 2006 and implemented in FY 2007. Thus, PBGC will have addressed a reportable condition and more importantly, reached its goal of improved financial performance.

**Base Level Funding:**

Base:
Estimate: $4,100,000 FTE: 0

**Program Performance at Request Level:**

Program Increase:
Estimate: -$2,692,000 FTE: 0

**Object Class ($ in thousands):**

| | Object Class | FY 2008 Agency Request |
|---|---|---|
| 25.2 | Other Services | -$2,692 |
| | TOTAL | -$2,692 |

## SINGLE EMPLOYER PROGRAM BENEFIT PAYMENTS

| (Dollars in Thousands) | FY 2006 Enacted | FY 2007 Estimate | Diff FY06 Enact./ FY07 Est. | FY 2008 Request | Diff FY07 Est./ FY08 Req |
|---|---|---|---|---|---|
| **Activity Appropriation** | $4,549,000 | $4,302,000 | -$247,000 | $4,831,000 | $529,000 |
| **FTE** | 0 | 0 | 0 | 0 | 0 |

**Introduction**

Resources that PBGC requests for benefit payments result from a non-discretionary entitlement. Under this program the Corporation pays guaranteed amounts to beneficiaries of private sector, single-employer defined-benefit pension plans when those plans terminate without enough assets to provide basic benefits. About 34.2 million workers and retirees in some 28,800 single-employer pension plans have a pension guaranty with PBGC.

PBGC's responsibility for benefit payment begins immediately when it becomes trustee of a terminated plan. The Corporation maintains uninterrupted benefit payments to existing retirees and begins payments to new retirees without delay.

PBGC pays estimated benefits to retirees until it confirms all necessary participant data and values plan assets and recoveries from the plan's sponsor. PBGC then calculates the actual benefit payable to each participant according to the specific terms of the participant's plan as applied to that participant's unique work history, statutory guarantee levels, and the funds available from plan assets and employer recoveries. Unlike other federal agencies with responsibility for retirement calculations (e.g., OPM, DVA, SSA), PBGC cannot administer benefits according to one set of rules; instead it must consider the individual provisions of each plan it has "trusteed".

**Five-Year Budget Activity History**

| Fiscal Year | Funding | FTE |
|---|---|---|
| 2003 | $2,248,000 | N/A |
| 2004 | 2,961,000 | N/A |
| 2005 | 3,234,000 | N/A |
| 2006 | 4,549,000 | N/A |
| 2007 | 4,302,000 | N/A |

| WORKLOAD SUMMARY | FY 2006 Estimate | FY 2007 Request | FY 2008 Request |
|---|---|---|---|
| **Workload Indicator:** | | | |
| Retirees receiving benefit checks | **612,000** | **662,000** | **712,000** |

# MULTI-EMPLOYER PROGRAM FINANCIAL ASSISTANCE

| (Dollars in Thousands) | FY 2006 Enacted | FY 2007 Estimate | Diff FY06 Enact./ FY07 Est. | FY 2008 Request | Diff FY07 Est./ FY08 Req |
|---|---|---|---|---|---|
| **Activity Appropriation** | $90,000 | $93,000 | $3,000 | $106,000 | $13,000 |
| **FTE** | 0 | 0 | 0 | 0 | 0 |

## Introduction

Multiemployer financial assistance is a non-discretionary entitlement program. The multi-employer program covers about 9.7 million participants in more than 1,600 insured plans. Funded and administered separately from the single-employer program, the multi-employer program differs in that PBGC steps in to guarantee multi-employer plans when a covered plan proves unable to pay benefits when due rather than, as in the case of single-employer plans, when the plan terminates.

The PBGC provides financial assistance to a plan after it receives an application and verifies that the plan is or will become insolvent and unable to pay basic benefits when due. The financial assistance provided takes the form of a loan that is repayable by the plan.

## Five-Year Budget Activity History

| Fiscal Year | Funding | FTE |
|---|---|---|
| 2003 | $10,000 | N/A |
| 2004 | 10,713 | N/A |
| 2005 | 30,000 | N/A |
| 2006 | 90,000 | N/A |
| 2007 | 93,000 | N/A |

# PENSION BENEFIT GUARANTY CORPORATION

## PERFORMANCE CHAPTER

# PENSION BENEFIT GUARANTY CORPORATION

## PERFORMANCE SUMMARY

**Introduction**

PBGC's strategic plan has three goals. Together they support the Secretary of Labor's Strategic Goal to Strengthen Economic Protections. The PBGC Strategic Goals are: 1) Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders; 2) Provide exceptional service to customers and stakeholders; and 3) Exercise effective and efficient stewardship of PBGC resources. The following are the three strategic goals and their associated outcomes.

*Strategic Goal #1:* *Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and the other stakeholders.*

The Pension Benefit Guaranty Corporation (PBGC) was created by Congress in the Employee Retirement Income Security Act of 1974 (ERISA) to insure the benefits earned by participants in defined benefit pension plans sponsored by private sector employers. The Corporation's statutory responsibilities are to encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants, to provide timely and uninterrupted payment of pension benefits, and to keep pension insurance premiums as low as possible. PBGC is not funded by general tax revenues and its obligations are not backed by the full faith and credit of the United States government. Its principal sources of revenue are insurance premiums paid by employers that sponsor insured pension plans and investment returns from managed assets. PBGC's stakeholders thus include the participants and beneficiaries whose pension benefits it insures, the employers that pay premiums to it, the policymakers who oversee the PBGC, and the tax-paying public that has an interest in a strong and effective pension system. The interests of these stakeholders may conflict, such as with respect to the strictness of funding rules or timing of plan terminations. Within the scope of its statutory authority, PBGC must balance these competing interests in its administration of the pension insurance programs. The outcomes to be achieved under this goal are to 1) identify, evaluate, and monitor risks to the pension insurance programs; 2) mitigate and minimize risk and loss to the pension insurance program; 3) effect trusteeships of terminated pension plans and administration of plan benefits in a timely and cost-effective manner; 4) enforce compliance with pension insurance program laws and regulations; and 5) promote a policy environment consistent with the interests of pension insurance program stakeholders.

The President signed into law the Pension Protection Act (PPA) on August 17, 2006, the scope of which strengthens plan funding rules, improves pension plan transparency, and reforms the premium structure for defined benefit plans. In February 2006, Congress enacted the Deficit Reduction Act which also affects the premium structure. PBGC is developing plans to implement these amendments to ERISA. While many sections of the PPA impact the insurance program, initially PBGC will focus on implementing premium reforms. Regulations to implement the flat rate premium increase, the variable rate premium increase and the new termination premium will be developed in FY 2008. Further reforms are needed, however, to address the $19 billion gap that still exists between the PBGC's liabilities and its assets. The FY 2008 Budget reflects the President's continued commitment to addressing the solvency of the pension system by reproposing the non-enacted premium reforms from the Administration's comprehensive pension reform proposal that were not included in PPA, including:

- Authorizing PBGC's Board of Directors to adjust the variable rate premiums paid by underfunded pension plans.
- Extending the variable rate premium to a plan's non-vested as well as its vested liabilities.

These activities support outcomes 4 and 5 above.

PBGC has increased emphasis and focus on activities necessary to achieve outcomes 1 and 2 above. The activities included increased monitoring and analysis of economic data and market performance indicators; more proactive positioning in legal challenges, and increasing knowledge about emerging industry developments. Implementation of the reorganization was completed in FY 2006 and as PBGC establishes the infrastructure and tools necessary to support this work, it will have more information about the markets, industry, and organizations, increasing its legal and negotiation position to better safeguard and balance its responsibilities within the pension insurance industry.

Performance for this goal will be measured using the following indicators and targets:

| Implement PBGC Premium Reforms required by the Pension Protection Act (PPA) of 2006 and the Deficit Reduction Act (DRA) of 2006 | FY 2008 Target | FY 2007 Target | FY 2006 Actual |
|---|---|---|---|
| Variable Rate Premium (from the PPA) | Implemented 100% | Issue Proposed regulations by 09/30/2007 | Not Applicable |
| Flat rate premium increase (from the DRA) | Implemented 100% | Issue Proposed regulations by 09/30/2007 | Not Applicable |
| Termination premium (new) (in both the PPA and DRA | Implemented 100% | Issue Proposed regulations by 09/30/2007 | Not Applicable |

*Strategic Goal #2: Provide exceptional service to customers and stakeholders.*

The PBGC is committed to providing the highest level of service to its customers and stakeholders. Our primary customers draw on PBGC administrative services and expertise regularly as beneficiaries of insured plans or of trusteed plans, as sponsors of such plans, and as practitioners that provide services to beneficiaries and plan sponsors. In addition, PBGC serves secondary customers with interests in the pension insurance programs, including policymakers, legislators, and the general public. To provide exceptional service to all the members of this diverse customer group requires a proactive program that seeks out what customers need and then provides it in a timely and responsive manner, monitoring the impact of the changes. It requires PBGC to take full advantage of all communications tools available to reach out and receive feedback, and to maximize its use of information technology. The outcomes to be achieved under this goal are to 1) ensure service is timely, accurate, and responsive; 2) empower customers to interact with the PBGC through the Internet and other automated channels; and 3) educate customers and stakeholders about the PBGC and the pension insurance programs.

PBGC is implementing several information technology projects to address the challenging outcomes mentioned above. They include enhancing the capability of existing tools and processes to the Customer Contact Center to support one-stop shopping for callers, and to participants and practitioners for processing transactions and accessing readily available information. Also included are electronic premium filing by pension plan practitioners, and online benefit calculation by FY 2007. Using surveys and focus groups, PBGC has received information from customers that enables it to be responsive and cognizant of their changing needs.

To educate and inform customers about PBGC and the pension insurance programs, PBGC has increased the availability of information to stakeholders, both compliance and policy information, through web pages and various communication media. This effort will continue through FY 2008 and beyond.

PBGC will continue its use of the American Customer Satisfaction Index to measure progress in achieving goal 2. The following are performance targets previously established for FY 2008, with targets for 2007, and actual results for 2006 to date:

| ACSI Survey | FY 2008 Target | FY 2007 Target | FY 2006 Actual |
|---|---|---|---|
| Premium filers | 68 | 68 | 68 (Baseline) |
| Participant callers | 80 | 80 | 75 |
| Retirees | 85 | 84 | 85 |

*Strategic Goal #3: Exercise effective and efficient stewardship of PBGC resources.*

Achieving the PBGC's strategic goals and objectives depends greatly on how well we manage program processes, systems and people. Our goal is for the corporation to be regarded as an exemplar of integrity, efficient stewardship, and performance excellence. To meet this goal requires strong corporate governance processes in the areas of financial management, human capital management, information technology management, competitive outsourcing and performance management. In the financial systems area, this means moving to an integrated system with strong internal controls. With respect to human capital, we are committed to a results-oriented, performance-based culture that incorporates the highest level of corporate ethics and performance excellence. In addition, we are using tools to increase the level of employee engagement and strengthen manager-employee relationships to improve the work environment.

The information technology infrastructure necessary to support all of the PBGC's programs must be aligned with business needs, with an investment planning process designed to provide maximum reliability, flexibility, efficiency and security. We must promote an innovative, competitive procurement environment and secure working facilities. And, we must institute an integrated performance measurement tool that provides access to readily available information for decision making and accountability. The outcome under this goal is to achieve corporate goals and objectives with 1) sound and effective financial management systems and internal controls; 2) alignment of human capital strategies; 3) information technology investments; and 4) business practices that promote cross-functional pursuit of corporate goals in a supportive environment and culture.

These outcomes are intended to balance the support activities necessary to achieve PBGC goals and objectives. Specifically, they include implementation of a consolidated financial system to support PBGC's efforts to sustain an unqualified clean audit opinion and continued efforts to strengthen the internal control risk assessments necessary to ensure adequate management controls exist across financial and operational activities of the corporation; continuing to build on principles of a performance based culture, by strengthening efforts to attract, train, and develop talent to meet PBGC challenges; ensuring access to mission critical systems; and implementation of cost effective business technology solutions. These are notwithstanding the need for a safe working environment, and the need to enhance management and performance data to support accountability, decision making and reporting.

**Cost Model**

PBGC requests a total operating budget of $411,151,000 and 870 FTE.

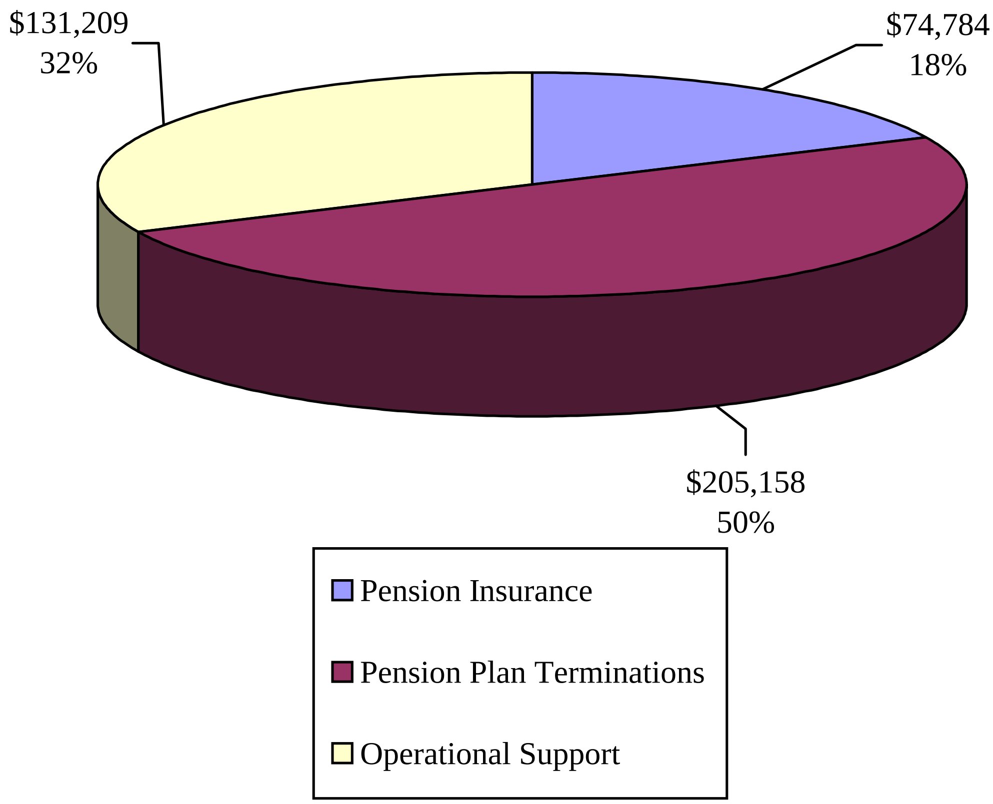
The FY 2008 operating budget request is comprised of three activities:

- Pension Insurance ($74,784,000) includes such functions as the collection and investment of premiums; monitoring, negotiating and litigating protections for participants in endangered plans; prosecuting claims recoveries in terminated plans; and assisting plan practitioners in their dealings with the Corporation.

- Plan Terminations and Benefits Administration ($205,158,000) includes the work necessary to fulfill PBGC's responsibilities toward the participants in trusteed plans, including determining and paying the benefits and providing related services.

- Operational Support ($131,209,000) includes the vast range of activities necessary to keep the Corporation working, including facilities, information technology, and other administrative services such as accounting, budget, strategic planning and human resources management.

**FY 2008 Operating Budget Request by Budget Activity**
**Total PBGC Budget Request $411,151**
**(Dollars in thousands)**



## Performance Challenges

The resources requested for FY 2007 and FY 2008 are essential to the Corporation's efforts to effectively monitor the growing number of companies sponsoring substantially underfunded plans and, where appropriate, to take steps to minimize losses, and to maintain processing efficiencies in providing benefits to participants in terminating defined benefit plans. The 2004 Program Assessment Rating Tool (PART) assessment of PBGC underscored the need to strengthen the monitoring program. Delivering exceptional service to customers and stakeholders means PBGC must continuously improve the processes for determining and paying benefits. PBGC's strategy for meeting these challenges includes several actions:

- Developing a comprehensive set of risk management and early warning system tools. PBGC is monitoring the growing number of companies with underfunded plans to help prevent losses and potential claims. The monitoring is accomplished through sophisticated business analysis, negotiation with multiple parties and legal enforcement. This is crucial to enabling the Corporation to enhance claims recovery, to mitigate or eliminate certain risks, and to pursue precedent-setting legal actions.

- Pursuing the necessary resources to supplement existing financial and actuarial staff with tools and skills to strengthen PBGC's ability to address the growing challenges and risks facing the pension insurance program.

- Focusing on maintaining 2.5 year processing for final benefit determinations and issuing about 160,000 such determinations each year. This will require the modernization of the suite of business systems that are used by PBGC to provide benefits administration and payment services to over 1,300,000 citizens who are vested participants in pension plans that PBGC has trusteed. It also modernizes and enhances several key investment components to improve PBGC customer service and reduce operating costs.

## PART Issues

PBGC had its first Program Assessment Rating Tool (PART) review in 2004. The PART rated PBGC's program as "moderately effective" overall. PBGC is working to improve the Program Results/Accountability area which focused primarily on the financial condition of the pension system, though the assessment reflected that this is somewhat beyond PBGC's control due to the significantly underfunded pension plans trusteed by PBGC. We received notice that a PBGC PART Review for the FY2009 Budget is due to OMB on March 30, 2007.

In addition to the actions mentioned in Performance Challenges, PBGC worked closely with the Administration, including the Department of Labor (DOL) and Department of Treasury throughout 2006 to support comprehensive pension reform. Legislative reform to strengthen plan funding rules, enhance transparency of plan information, and reform the premium structure for defined benefit plans was included in the President's FY 2006 Budget to Congress. On February 8, 2006, Congress passed the Deficit Reduction Act, which increased flat-rate premiums for single employer and multiemployer plans. The Deficit Reduction Act is a step in the right direction, but the PBGC continues to participate in the Administration's efforts to work with the Congress to improve pension funding over current law. On August 17, the President signed into law the Pension Protection Act, which strengthens funding rules, improves transparency and further reforms the premium structure.  PBGC will implement regulations to increase the flat-rate premiums, increase the variable rate premium and establish the termination premium in FY 2008.

Regarding the Form 5500, PBGC is working with DOL and IRS to collect pension plan information more efficiently and to improve the collection of multiemployer information.  PBGC continues to aggressively explore opportunities to strengthen its pension plan monitoring and encourage better funding of the defined benefit system.

**Program efficiency measures**

PBGC developed one efficiency measure in FY 2003—the cost per participant in trusteed plans. Data sources for the measure are the funding amounts budgeted for terminated plan benefit administration, divided by the numbers for participants in trusteed plans.  In FY 2005, the FY 2004 baseline results were restated to reflect a reclassification of some plan termination activities to pension insurance activities.  Results for FY 2006 appear in the efficiency measure table.

**Conclusion**

In FY 2008, PBGC will continue to take steps to clarify its strategic direction, both in terms of its mission and its strategic activities.  The Corporation will implement regulations regarding pension reforms and continue to focus on strengthening the infrastructure to mitigate losses to the insurance program.  PBGC plans to expand its customer service efforts, reaching out to its broader customer base of insured participants while continuing to insure that its primary customers – practitioners and participants, receive the service levels they deserve.  Lastly, PBGC is committed to stewardship using its resources in the pursuit of excellence by improving the tools and practices that enable it to best manage program processes, systems, and people.

| FY 2008 BUDGET AUTHORITY by STRATEGIC GOAL (Dollars in Thousands) | | | | | |
|---|---|---|---|---|---|
| Performance Goal | DOL Strategic Goal 1: A Prepared Workforce | DOL Strategic Goal 2: A Competitive Workforce | DOL Strategic Goal 3: Safe and Secure Workplaces | DOL Strategic Goal 4: Strengthened Economic Protections | Total Budget Authority |
| **Performance Goal #4:** | | | | | |
| Budget Activity 1: Pension Insurance | | | | $74,784 | $74,784 |
| Budget Activity 2: Pension Plan Termination and Benefit Administration | | | | 205,158 | 205,158 |
| Budget Activity 3: Operational Support | | | | 131,209 | 131,209 |
| Benefit Payments | | | | 4,831,000 | 4,831,000 |
| Financial Assistance | | | | 106,000 | 106,000 |
| **Total** | | | | **$5,348,151** | **$5,348,151** |

## PENSION BENEFIT GUARANTY CORPORATION

**TOTAL BUDGETARY RESOURCES BY ACTIVITY**
**FY 2006 – FY 2008**
**(Dollars in Thousands)**

| | FY 2006 Enacted | | | | FY 2007 Estimate | | | | FY 2008 Request | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Activity Approp. | Other Approp. | Other Resources | Total | Activity Approp. | Other Approp. | Other Resources | Total | Activity Approp. | Other Approp. | Other Resources | Total |
| Appropriation | | | | | | | | | | | | |
| Budget Activity 1: Pension Insurance | $70,185 | 0 | 0 | $70,185 | $80,357 | 0 | 0 | $80,357 | $74,784 | 0 | 0 | $74,784 |
| Budget Activity 2: Pension Plan Termination and Benefit Administration | 198,140 | 0 | 0 | 198,140 | 196,567 | 0 | 0 | 196,567 | 205,158 | 0 | 0 | 205,158 |
| Budget Activity 3: Operational Support | 117,322 | 0 | 0 | 117,322 | 128,467 | 0 | 0 | 128,467 | 131,209 | 0 | 0 | 131,209 |
| Benefit Payments | 4,549,000 | 0 | 0 | 4,549,000 | 4,302,000 | 0 | 0 | 4,302,000 | 4,831,000 | 0 | 0 | 4,831,000 |
| Financial Assistance | 90,000 | 0 | 0 | 90,000 | 93,000 | 0 | 0 | 93,000 | 106,000 | 0 | 0 | 106,000 |
| **Total** | **$5,024,647** | **0** | **0** | **$5,024,647** | **$4,800,391** | **0** | **0** | **$4,800,391** | **$5,348,151** | **0** | **0** | **$5,348,151** |

# PENSION BENEFIT GUARANTY CORPORATION

## SUMMARY OF PERFORMANCE AND RESOURCE LEVELS
### Pension Benefit Guaranty Corporation

| Budget Activities, Performance Goals and Indicators | FY 2003 | | FY 2004 | | FY 2005 | | FY 2006 | | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Target | Result | Target | Result | Target | Result | Target | Result | Target | Target |
| **Budget Activity 1: Safeguard** | | | | | | | $70,185,000 | | $80,357,000 | $74,784,000 |
| ACSI for Premium Filers* | 70 | 69 | 71 | 69 | | | | | | |
| Implement PBGC Premium Reforms required by the Pension protection Act (PPA) of 2006 and the Deficit Reduction Act (DRA) of 2006 (Issue three proposed regulations) | | | | | | | | | | |
| 1) Variable rate Premium (from the PPA) | | | | | | | | | 09/30/2007 | 100% |
| 2) Flat rate premium increas( from the DRA) | | | | | | | | | 09/30/2007 | 100% |
| 3) Termination premium (both the PPA and DRA) | | | | | | | | | 09/30/2007 | 100% |
| | | | | | | | | | | |
| **Budget Activity 2: Service** | | | | | | | $198,140,000 | | $196,567,000 | $205,158,000 |
| ACSI for Premium Filers* | | | | | 72 | 68 | Baseline | 68 | 68 | 68 |
| ACSI for Participant Callers | 74 | 77 | 77 | 78 | 78 | 79 | 80 | 75 | 80 | 80 |
| ACSI for Retirees | na | na | Baseline | 84 | 84 | 85 | 84 | 85 | 84 | 85 |
| | | | | | | | | | | |
| **Budget Activity 3: Stewardship** | | | | | | | $117,322,000 | | $128,467,000 | $131,209,000 |
| Participant Efficiency | | | Baseline | $219 | $194 | $194 | $199 | $198 | $174 | $171 |
| | | | | | | | | | | |
| **PBGC Total** | | | | | | | $385,647,000 | | $405,391,000 | $411,151,000 |

Baseline(s): Baselines are indicated in the table for each measure.

Comment: *ACSI for Premium Filers was moved from Activity 1 to Activity 2; also PBGC substantially revised the ACSI survey questionnaire which warranted a new baseline of the performance measure. PBGC continues to examine ways to improve service to practitioners and increase efficiency.

# PENSION BENEFIT GUARANTY CORPORATION

## PART RECOMMENDATIONS AND STATUS

| **Agency/Program: Pension Benefit Guaranty Corporation** | | | | |
|---|---|---|---|---|
| **PART Recommendation** | **Milestone(s)** | **Target (FY/Q)** | **Completion (FY/Q)** | **Comments on Status; Reference/Documentation** |
| 1. Continue to support amendments to ERISA that will permit the PBGC to credibly monitor the stability and funding of the private defined benefit pension system | Assist Congressional staff with preparation of initial draft and subsequent revisions of proposed legislation | 9/30/06 | **2/2006**<br>**8/2006** | The Deficit Reduction Act, which increased flat-rate premiums for single employer and multiemployer plans, was enacted on February 8, 2006. The President signed the Pension Protection Act on August 17, 2006, which increased the variable rate premium and established a termination premium. PBGC will implement regulations relating to the premium reforms in FY 2008, and work with the DOL and Treasury to implement other sections of the PPA. |
| 2. Seek ways to improve the PBGC's ability to manage its own financial risk, and the risks in the plans it insures. | Establish an Office of Risk Assessment, complete implementation of the Insurance Program Department, including the Early Warning function, and related automated systems and procedures. | 9/30/06 | **09/30/06** | PBGC discontinued efforts to establish ORA. The functions formally associated with ORA have been integrated into the related operational activities of the Insurance Program office, which will provide more effective tools and resources to manage risks. |

# PENSION BENEFIT GUARANTY CORPORATION

## EFFICIENCY MEASURES

| | | | | | |
|---|---|---|---|---|---|
| **Program/Budget Activity** | Pension Benefit Guaranty Corporation | | | | |
| **FY Program PARTed** | *2004* | | | | |
| **Status of Approval** | *Approved* | | | | |
| **Efficiency Measure** | *Cost per participant in trusteed plans* | | | | |
| **Numerator Description** | *Budget for plan termination ($)* | | | | |
| **Denominator Description** | *Number of single-employer participants receiving or due to receive benefits* | | | | |
| **Baseline Data** | FY/PY 2004 | Numerator: $210,582,887 | | | Ratio: $219 (Actual) |
| | | Denominator: 961,000 | | | |
| **FY/PY** | 2005 | 2006 | 2007 | 2008 | 2009 |
| **Target Ratios** | | $199 | $174 | $171 | TBD |
| **Result Ratios** | $194 | $198 | TBD | TBD | |
| **Comment/Data Source** | This measure is an important indicator of the efficient use of resources. Although the workload has increased dramatically, the cost per participant in terminated plans continues to drop. Data sources for this measure are the funding allocated to pension plan termination and trusteeship activities and the total number of participants in those plans. A redistribution of funds to improve responsiveness to customers and stakeholders and to developments in the business environment decreased funds in the pension plan termination activity. | | | | |
| **Strategy(s) to Achieve Efficiency** | Constant upgrades to technology will enable PBGC to provide better and faster service to participants. PBGC implemented a customer relationship management system to create a unified desk top for tracking customer interactions from the telephone, e-mail, fax, incoming and outgoing correspondence, and Web-based transactions. | | | | |

<table>
<tr><td>Program/Budget Activity</td><td colspan="5">Pension Benefit Guaranty Corporation</td></tr>
<tr><td>FY Program PARTed</td><td colspan="5">2004</td></tr>
<tr><td>Status of Approval</td><td colspan="5">Approved</td></tr>
<tr><td>Efficiency Measure</td><td colspan="5">Cost per participant in covered plans</td></tr>
<tr><td>Numerator Description</td><td colspan="5">Budget for pension insurance ($)</td></tr>
<tr><td>Denominator Description</td><td colspan="5">Total number of participants in PBGC-covered plans</td></tr>
<tr><td rowspan="2">Baseline Data</td><td rowspan="2">FY/PY 2004</td><td colspan="3">Numerator: $68,638,000</td><td rowspan="2">Ratio: $1.55</td></tr>
<tr><td colspan="3">Denominator: 44,400,000</td></tr>
<tr><td>FY/PY</td><td>2005</td><td>2006</td><td>2007</td><td>2008</td><td>2009</td></tr>
<tr><td>Target Ratios</td><td></td><td>$2.29</td><td>$2.67</td><td>$2.50</td><td>TBD</td></tr>
<tr><td>Result Ratios</td><td>$1.89</td><td>$2.29</td><td>TBD</td><td>TBD</td><td>TBD</td></tr>
<tr><td>Comment/Data Source</td><td colspan="5">This measure is an important indicator of the efficient use of resources. Data sources for this measure are the funding allocated to pension plan insurance and the total number of participants in covered plans. A redistribution of funds to improve responsiveness to customers and stakeholders and to developments in the business environment increased funds in the pension insurance activity.</td></tr>
<tr><td>Strategy(s) to Achieve Efficiency</td><td colspan="5">Step up risk assessments, plan monitoring and negotiation and litigation to limit risk exposure and losses. Further PBGC will publish regulations in 2007 to implement PPA and DRA flat-rate premium increase, variable-rate premium changes, and the new termination premium requirement.</td></tr>
</table>