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# **Pension Benefit Guaranty Corporation (PBGC): A Primer**

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## Summary

The Pension Benefit Guaranty Corporation (PBGC) is a federal government agency established in 1974 by the Employee Retirement Income Security Act (ERISA; P.L. 93-406). It was created to protect the pensions of participants and beneficiaries covered by private sector, *defined benefit* (DB) plans. These pension plans provide a specified monthly benefit at retirement, usually either a percentage of salary or a flat dollar amount multiplied by years of service. *Defined contribution* plans, such as §401(k) plans, are not insured. PBGC is chaired by the Secretary of Labor, with the Secretaries of the Treasury and Commerce serving as board members.

PBGC runs two distinct insurance programs for single-employer and multiemployer plans. Multiemployer plans are collectively bargained plans to which more than one company makes contributions. PBGC maintains separate reserve funds for each program.

A firm must be in financial distress to end an underfunded single-employer plan. Multiemployer plans do not terminate. When a multiemployer plan becomes insolvent and is not able to pay promised benefits, PBGC provides financial assistance to the plan in the form of loans, although PBGC does not expect the loans to be repaid.

In FY2013, PBGC insured about 24,835 DB pension plans covering 42.3 million people. PBGC paid or owed benefits to 1.5 million people, became the trustee of 111 newly terminated single-employer pension plans, and provided financial assistance to 44 multiemployer pension plans.

There is a statutory maximum benefit, which PBGC can pay. Participants in single-employer plans that terminate in 2014 and are trustee by PBGC may receive up to \$59,318 per year. Participants in multiemployer plans that receive financial assistance from PBGC may receive up to \$12,870 per year. Most workers in single-employer plans taken over by PBGC receive the full pension benefit that they earned at the time of termination.

At the end of FY2013, PBGC had a total deficit of \$35.7 billion, of which \$27.4 billion was from the single-employer program and \$8.3 billion was from the multiemployer program. PBGC's single-employer program has been on the Government Accountability Office's (GAO's) list of high-risk government programs since 2003. PBGC's multiemployer program was added in 2009. PBGC's projections expect the financial position of the single-employer program to improve slightly whereas the financial position of the multiemployer program is expected to worsen considerably over the next 10 years.

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# Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC) is a federal government agency established by the Employee Retirement Income Security Act of 1974 (ERISA; P.L. 93-406). It was created to protect the pensions of participants and beneficiaries covered by private sector, *defined benefit* (DB) plans. These pension plans provide a specified monthly benefit at retirement, usually either a percentage of salary or a flat dollar amount multiplied by years of service. *Defined contribution* plans, such as §401(k) plans, are not insured.

PBGC runs two distinct insurance programs: single-employer and multiemployer plans. Multiemployer plans are collectively bargained plans to which more than one company makes contributions. PBGC maintains separate reserve funds for each program. In FY2013, PBGC insured about 24,835 DB pension plans covering 42.3 million people. It paid or owed benefits to 1.5 million people and took in 111 newly terminated pension plans. A firm must be in financial distress to end an underfunded plan. Most workers in single-employer plans taken over by PBGC receive the full benefit earned at the time of termination, but the ceiling on multiemployer plan benefits that could be guaranteed has left almost all of these retirees without full benefit protection.

## PBGC Administration

PBGC is a government-owned corporation. A three-member board of directors, chaired by the Secretary of Labor, administers the Corporation. The Secretary of Commerce and the Secretary of the Treasury are the other members of the board of directors. The Director of PBGC is appointed by the President with the advice and consent of the Senate. ERISA also provides for a seven-member Advisory Committee, appointed by the President, for staggered three-year terms. The Advisory Committee advises PBGC on issues, such as investment of funds, plan liquidations, and other matters.

The Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21; P.L. 112-141) altered some of the governance structures of PBGC. Some of these changes include setting the term of PBGC Director at five years, unless removed by the President or by the board of directors; requiring that the Board of Directors meet at least four times each year; and establishing a Participant and Plan Sponsor Advocate within PBGC to act as a liaison between PBGC, participants in plans trusteeed by PBGC, and the sponsors of pension plans insured by PBGC.

## PBGC Financing

PBGC is required by ERISA to be self-supporting and receives no appropriations from general revenue. ERISA states that the “United States is not liable for any obligation or liability incurred by the corporation,”<sup>1</sup> and some Members of Congress have expressed a reluctance to consider providing financial assistance to PBGC.<sup>2</sup> The most reliable source of PBGC revenue is the

<sup>1</sup> See ERISA 4002 § 1302(g)(2) and 29 U.S.C. 1302 § (g)(2).

<sup>2</sup> For example, Chairman Phil Roe and (at the time) Ranking Member Robert Andrews, of the Subcommittee on Health, Employment, Labor, and Pensions in the House Education and Workforce Committee, both expressed reservations about providing government financial assistance for PBGC. See U.S. Congress, House Committee on Education and the Workforce, Subcommittee on Health, Employment, Labor, and Pensions, *Examining the Challenges Facing PBGC* (continued...)

premiums set by Congress and paid by the private-sector employers that sponsor DB pension plans. Other sources of income are assets from terminated plans taken over by PBGC, investment income, and recoveries collected from companies when they end underfunded pension plans. P.L. 96-364 requires that PBGC's receipts and disbursements be included in federal budget totals.

## Premiums

The sponsors of private-sector pension plans pay a variety of premiums to PBGC. The sponsors of single-employer and multiemployer pension plans pay a flat-rate, per-participant premium. The sponsors of underfunded single-employer pension plans pay an additional premium that is based on the amount of plan underfunding. In addition, pension plans that are terminated in certain situations pay a per-participant premium per year for three years after termination.

In 2014, the premiums are

- *Single-employer flat-rate premium:* The sponsors of single-employer DB pension plans pay an annual premium of \$49 for each participant in the plan.
- *Single-employer variable-rate premium:* In addition to the flat-rate premium, the sponsors of underfunded single-employer DB pension plans pay an additional annual premium of \$14 for each \$1,000 of unfunded vested benefits.<sup>3</sup> There is a per-participant limit of \$412 for this premium.
- *Multiemployer flat-rate premium:* The sponsors of multiemployer DB pension plans pay an annual premium of \$12 for each participant in the plan.
- *Single-employer termination premium:* The sponsors of single-employer DB pension plans that end in certain situations<sup>4</sup> pay an annual premium of \$1,250 per participant per year for three years following plan termination.<sup>5</sup>

MAP-21 (P.L. 112-141) and H.J.Res. 59, the vehicle for the December 2013 bipartisan budget agreement (P.L. 113-67), specified the following changes to the premiums that plan sponsors pay to PBGC. Since H.J.Res. 59 was enacted after MAP-21, the changes made by H.J.Res. 59 supersede the changes made by MAP-21.

- *Single-employer, flat-rate premiums:* MAP-21 increased the single-employer flat-rate premium to \$42 per participant in 2013 and to \$49 per participant in 2014. MAP-21 specified that after 2014, the flat-rate premium was to be indexed for

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(...continued)

*and Defined Benefit Pension Plans*, 112<sup>th</sup> Cong., 2<sup>nd</sup> sess., February 2, 2012, 112-50 (Washington: GPO, 2012) and U.S. Congress, House Committee on Education and the Workforce, Subcommittee on Health, Employment, Labor, and Pensions, *Strengthening the Multiemployer Pension System: What Reforms Should Policymakers Consider?*, 113<sup>th</sup> Cong., 1<sup>st</sup> sess., June 12, 2013.

<sup>3</sup> Vested benefits are those benefits that a participant has earned a right to receive from a pension plan. Participants are entitled to their vested benefits even if they leave the pension plan or if the plan terminates.

<sup>4</sup> The termination premium applies to plans that end in distress terminations in which ERISA § 4044(c) applies, unless certain conditions about the plan's sponsors apply. For more information, see *Termination Premium Payment Package, including PBGC Form T*, available from PBGC at <http://www.pbgc.gov/documents/Form-T-package-2014.pdf>.

<sup>5</sup> The termination premium is \$2,500 for airlines that chose the funding relief available under Section 402 of the Pension Protection Act of 2006 (PPA; P.L. 109-280) if the plan terminated within five years of choosing the funding relief.

increases in the annual rate of growth in the average national wage. H.J.Res. 59 increased the single-employer flat-rate premium to \$57 in 2015 and \$64 in 2016. After 2016, the flat-rate premium will be indexed to increases in the average national wage.

- *Single-employer, variable-rate premiums:* MAP-21 increased the variable-rate premium by \$4 per \$1,000 of unfunded benefits in 2014 and by another \$5 per \$1,000 of unfunded vested benefits in 2015. The \$4 increase in 2014 and \$5 increase in 2015 occur after the prior year's premium is increased for changes in the average national wage. After 2015, the variable rate was to be indexed for increases in the average national wage. H.J.Res. 59 increased the variable-rate premium in 2015 by an additional \$10 over the 2014 rate (after the 2014 rate is indexed for increases in the average national wage) per \$1,000 of unfunded vested benefits and by an additional \$5 (after the 2015 rate is indexed for increases in the average national wage) in 2016 per \$1,000 of unfunded vested benefits. After 2016, the variable-rate premium will be indexed to increases in the average national wage.
- *Single-employer, variable-rate premium cap:* MAP-21 authorized a maximum variable-rate premium of \$400 per participant beginning in 2013. After 2013, the maximum variable-rate premium is indexed for increases in the average national wage and is \$412 in 2014. H.J.Res. 59 authorized a maximum variable-rate premium of \$500 per participant beginning in 2016.
- *Multiemployer plan premiums:* MAP-21 increased the premium by \$2 per participant beginning in 2013. After 2013, the multiemployer plan premium will continue to be indexed for increases in the average national wage. H.J.Res. 59 did not authorize any changes to multiemployer plan premiums.

The termination premium was not changed by either MAP-21 or H.J.Res. 59.

## Requirements for PBGC Coverage

PBGC covers only those defined benefit plans that meet the qualification requirements of Section 401 of the Internal Revenue Code (IRC).<sup>6</sup> Plans must meet these requirements to receive the tax benefits available to qualified pension plans. If a plan meets the requirements of IRC Section 401, the employer's contributions to the plan are treated as a tax-deductible business expense, and neither the employer's contributions to the plan nor the investment earnings of the plan are treated as taxable income to the participants. When a pension plan participant begins to receive income from the plan, it is taxed as ordinary income.

Generally, to be qualified under the IRC, a pension plan must be established with the intent of being a permanent and continuing arrangement; must provide definitely determinable benefits;<sup>7</sup> may not discriminate in favor of highly compensated employees with respect to coverage, contributions, or benefits; and must cover a minimum number or percentage of employees.

<sup>6</sup> See 26 U.S.C. § 401.

<sup>7</sup> See 25 U.S.C. § 401(a)(25) and 26 CFR § 1.401(a)-1. Definitely determinable benefits are benefits that are based on actuarial assumptions over which an employer does not have the discretion to make changes. For example, a benefit that could be changed based on the employer's profits would not be definitely determinable.

Pension plans specifically excluded by law from being insured by PBGC include governmental plans, church plans, plans of fraternal societies financed entirely by member contributions, plans maintained by certain professionals (such as physicians, attorneys, and artists) with 25 or fewer participants, and plans established and maintained exclusively for substantial owners of businesses.<sup>8</sup> In addition, defined contribution plans (such as 401(k) and 403(b) plans) are not insured by PBGC.

## Pension Benefit Guaranty

PBGC's single-employer and multiemployer insurance programs operate differently.

In the single-employer program, PBGC becomes the trustee of the terminated, underfunded single-employer DB pension plans. The assets of the terminated plan are placed in a trust fund operated by PBGC. The participants in the trustee plans receive their benefits from PBGC.

In the multiemployer program, PBGC does not become the trustee of plans. PBGC makes loans to multiemployer DB pension plans when the plans become insolvent. An insolvent multiemployer plan has insufficient assets available from which to pay participant benefits.

## Single-Employer Insurance Program

An employer can voluntarily terminate a single-employer plan in either a standard or distress termination.<sup>9</sup> The participants and PBGC must be notified of the termination. PBGC may involuntarily terminate an underfunded plan if the sponsor is unable to fund its pension obligations.

### *Standard Terminations*

A company may voluntarily end its pension plan if the plan's assets are sufficient to cover benefit liabilities. Generally, benefit liabilities equal all benefits earned to date by plan participants, including vested and nonvested benefits (which automatically become vested at the time of termination), plus certain early retirement supplements and subsidies. Benefit liabilities also may include certain contingent benefits.<sup>10</sup> If assets are sufficient to cover benefit liabilities (and other termination requirements, such as notice to employees, have not been violated), the plan distributes benefits to participants. The plan provides for the benefit payments it owes by purchasing annuity contracts from an insurance company, or otherwise providing for the payment of benefits, for example, by providing the benefits in lump-sum distributions.

Assets in excess of the amounts necessary to cover benefit liabilities may be recovered by the employer in an asset reversion.<sup>11</sup> The asset reversion is included in the gross income of the employer and is also subject to a nondeductible excise tax. The excise tax is 20% of the amount

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<sup>8</sup> See 29 U.S.C. § 1321.

<sup>9</sup> More information is available in CRS Report RS22624, *The Pension Benefit Guaranty Corporation and Single-Employer Plan Terminations*, by Jennifer A. Staman and Erika K. Lunder.

<sup>10</sup> Contingent benefits are benefits that are available when certain specified events occur. For example, a plan might provide "shutdown benefits," which are additional benefits should a plant or facility close.

<sup>11</sup> An asset reversion is cash and property received by the sponsor of a DB pension plan. See 26 U.S.C. § 4980(c)(2).

of the reversion if the employer establishes a qualified replacement plan or provides certain benefit increases in connection with the termination. Otherwise, the excise tax is 50% of the reversion amount.

### ***PBGC Trusteeship***

When an underfunded plan terminates in a distress or involuntary termination, the plan goes into PBGC receivership. PBGC becomes the trustee of the plan, takes control of any plan assets, and assumes responsibility for liabilities under the plan. PBGC makes payments for benefit liabilities promised under the plan with assets received from two sources: assets in the plan before termination and assets recovered from employers. The balance, if any, of guaranteed benefits owed to beneficiaries is paid from PBGC's revolving funds.

### **Distress Terminations**

If assets in the plan are not sufficient to cover benefit liabilities, the employer may not terminate the plan unless the employer meets one of four criteria necessary for a "distress" termination:

1. The plan sponsor, and every member of the controlled group (companies with the same ownership) of which the sponsor is a member, has filed or had filed against it a petition seeking liquidation in bankruptcy or any similar federal law or other similar state insolvency proceedings;
2. The plan sponsor, and every member of the sponsor's controlled group, has filed or had filed against it a petition to reorganize in bankruptcy or similar state proceedings. This criterion is also met if the bankruptcy court (or other appropriate court) determines that, unless the plan is terminated, the employer will be unable to continue in business outside the reorganization process and approves the plan termination;
3. PBGC determines that termination is necessary to allow the employer to pay its debts when due; or
4. PBGC determines that termination is necessary to avoid unreasonably burdensome pension costs caused solely by a decline in the employer's work force.

These requirements were added by the Single Employer Pension Plan Amendments Act of 1986 (SEPPAA; P.L. 99-272) and modified by the Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203) and the Retirement Protection Act of 1994 (RPA; P.L. 103-465). They are designed to ensure that the liabilities of an underfunded plan remain the responsibility of the employer, rather than PBGC, unless the employer meets strict standards of financial need indicating genuine inability to continue funding the plan.

### **Involuntary Terminations**

PBGC may terminate a plan involuntarily, either by agreement with the plan sponsor or pursuant to a federal court order. PBGC may institute such proceedings only if the plan in question has not met the minimum funding standards, will be unable to pay benefits when due, has a substantial owner who has received a distribution greater than \$10,000 (other than by reason of death), or the long-run loss to PBGC with respect to the plan is expected to increase unreasonably if the plan is not terminated. PBGC must terminate a plan if the plan is unable to pay benefits that are currently

due. A federal court may order termination of the plan to protect the interests of participants, to avoid unreasonable deterioration of the plan's financial condition, or to avoid an unreasonable increase in PBGC's liability under the plan.

**Table 1** provides information on the number of terminations since 1974 by single-employer DB pension plans and the number of these terminations that resulted in PBGC becoming trustee of the pension plan. From FY1974 through FY2012, PBGC became the trustee of 4,447 single-employer DB pension plans. In FY2013, PBGC became the trustee of 111 new plans. The number of single-employer plan terminations that result in claims against PBGC is a small fraction of all plan terminations. Most pension plan terminations are standard terminations. Over PBGC's history, terminations of underfunded plans have made up 3.2% of all terminations.

**Table I. Number of Standard and Trusteed Pension Plan Terminations**

Fiscal Year	Number of Standard Termination Filings	Trusteed Terminations
1974-1979	7,955	586
1980-1984	28,025	622
1985-1989	42,599	537
1990-1990	24,171	694
1995-1999	15,089	444
2000	1,892	73
2001	1,748	117
2002	1,452	186
2003	1,203	172
2004	1,198	164
2005	1,108	129
2006	1,247	89
2007	1,233	77
2008	1,405	82
2009	1,294	184
2010	1,308	144
2011	1,400	85
2012	1,332	61
2013	a	111
<b>Total</b>	<b>135,659</b>	<b>4,447</b>

**Source:** Table S-3 Pension Benefit Guaranty Corporation Pension Insurance Data Book, 2012, and Pension Benefit Guaranty Corporation (PBGC), PBGC Annual Report 2013, <http://www.pbgc.gov/documents/2013-annual-report.pdf>.

**Notes:** In a standard termination, a pension plan has sufficient assets from which to pay 100% of the participants' promised benefits. In a trustee termination, PBGC becomes trustee of the plan and participants receive their benefits, up to a statutory maximum amount, from PBGC.

a. The number of standard terminations in FY2013 is not yet available.

### *Employer Liability to PBGC*

Following a distress or involuntary termination, the plan's sponsor and every member of that sponsor's controlled group are liable to PBGC for the plan's shortfall. The shortfall is measured as the value of the plan's liabilities as of the date of plan's termination minus the fair market value of the plan's assets on the date of termination. The liability is joint and several, meaning that each member of the controlled group, can be held responsible for the entire liability. Generally, the obligation is payable in cash or negotiable securities to PBGC on the date of termination. Failure to pay this amount upon demand by PBGC may trigger a lien on the property of the contributing employer's controlled group. Often, however, a plan undergoing a distress termination is sponsored by a company that is in bankruptcy proceedings, in which case PBGC does not have

legal authority to create (or “perfect”) a lien against the plan sponsor. In such instances, PBGC has the same legal standing as other creditors of the plan sponsor, and its ability to recover assets is limited.

### ***Benefit Payments***

When an underfunded plan terminates, the benefits that PBGC will pay depend on the statutory limit on guaranteed benefits, the amount of terminated plan’s assets, and recoveries by PBGC from the employer that sponsored the terminated plan.

### **Guaranteed Benefits**

Within limits set by Congress, PBGC guarantees any retirement benefit that was nonforfeitable (vested) on the date of plan termination other than benefits that vest solely on account of the termination, and any death, survivor or disability benefit that was owed or was in payment status at the date of plan termination. Generally, only that part of the retirement benefit that is payable in monthly installments (rather than, for example, lump-sum benefits payable to encourage early retirement) is guaranteed. Retirement benefits that commence before the plan’s normal age of retirement are guaranteed, provided they meet the other conditions of guarantee. Contingent benefits (for example, early retirement benefits provided only if a plant shuts down) are guaranteed only if the triggering event occurs before plan termination. Following enactment of the Pension Protection Act of 2006 (PPA; P.L. 109-280), PBGC guarantee for such benefits is phased in over a five-year period commencing when the event occurs.<sup>12</sup>

### **Benefits for Participants in Single-Employer Pension Plans**

ERISA sets a maximum on the individual benefit amount that PBGC can guarantee.<sup>13</sup>

The ceiling for single-employer plans is adjusted annually for national wage growth. The maximum pension guarantee is \$59,320 a year for workers aged 65 in plans that terminate in 2014. This amount is adjusted annually and is decreased if a participant begins receiving the benefit before age 65 or if the pension plan provides benefits in some form other than equal monthly payments for the life of the retiree. The benefit is increased if a participant begins receiving the benefit after the age of 65.

The reduction in the maximum guarantee for benefits paid before age 65 is 7% for each of the first five years under age 65, 4% for each of the next five years, and 2% for each of the next 10 years.<sup>14</sup> The reduction in the maximum guarantee for benefits paid in a form other than a single life annuity depends on the type of benefit, and if there is a survivor’s benefit, the percentage of

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<sup>12</sup> For example, PBGC pays 20% of a participant’s shutdown benefit if the benefit was adopted within one year prior to plan termination. The percentage increases from year to year. If the benefit was adopted more than five years prior to plan termination, PBGC pays 100% of the participant’s shutdown benefit. For more information, see Pension Benefit Guaranty Corporation, “Benefits Payable in Terminated Single-Employer Plans; Limitations on Guaranteed Benefits; Shutdown and Similar Benefits,” 79 *Federal Register* 25667-25675, May 6, 2014.

<sup>13</sup> The maximum benefit is different for participants in terminated single-employer pension plans compared with participants in insolvent multiemployer pension plans.

<sup>14</sup> Further information on the maximum benefit is available in 29 C.F.R. § 4022.23, Computation of Maximum Guaranteeable Benefits.

the benefit continuing to the surviving spouse and the age difference between the participant and spouse.<sup>15</sup>

Only “basic benefits” are guaranteed. These include benefits beginning at normal retirement age (usually 65), certain early retirement and disability benefits, and benefits for survivors of deceased plan participants. Only vested benefits are insured. The median monthly benefit received in FY2012 was \$284. PBGC indicated that more than 80% of PBGC recipients received their full benefits.<sup>16</sup>

Assets of a terminated plan are allocated to pay benefits according to a priority schedule established by statute. Under this schedule, some nonguaranteed benefits are payable from plan assets before certain guaranteed benefits. For example, benefits of participants who have been receiving pension payments for more than three years have priority over guaranteed benefits of participants not yet receiving payments.

PBGC also is required to pay participants a portion of their unfunded, nonguaranteed benefits based on a ratio of assets recovered from the employer to the amount of PBGC’s claim on employer assets (called Section 4022(c) benefits).

## Multiemployer Pension Insurance Program

In the case of multiemployer plans, PBGC insures plan insolvency, rather than plan termination. Accordingly, a multiemployer plan need not be terminated to qualify for PBGC financial assistance. A plan is insolvent when its available resources are not sufficient to pay the plan benefits for the plan year in question, or when the sponsor of a plan in reorganization reasonably determines, taking into account the plan’s recent and anticipated financial experience, that the plan’s available resources will not be sufficient to pay benefits that come due in the next plan year.

If it appears that available resources will not support the payment of benefits at the guaranteed level, PBGC will provide the additional resources needed as a loan, which PBGC indicates are rarely repaid.<sup>17</sup> PBGC may provide loans to the plan year after year. If the plan recovers from insolvency, it must begin repaying loans on reasonable terms in accordance with regulations. Only one multiemployer plan has repaid any of its financial assistance.<sup>18</sup>

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<sup>15</sup> A single life annuity is a benefit which pays an equal monthly benefit for the life of the participant. A survivor’s annuity pays an equal monthly benefit for the longer of the life of the participant and the participant’s spouse. The monthly payment in a survivor’s annuity is typically less than the amount of the single life annuity.

<sup>16</sup> This is based on a 2006 study by PBGC. See Pension Benefit Guaranty Corporation, *PBGC’s Guarantee Limits—an Update*, September 2008, <http://www.pbgc.gov/docs/guaranteelimits.pdf>. CRS is not aware of a more recent study regarding the percentage of participants who receive their full pension benefits.

<sup>17</sup> See Pension Benefit Guaranty Corporation (PBGC), *PBGC Annual Report 2013*, p. 38, <http://www.pbgc.gov/documents/2013-annual-report.pdf>.

<sup>18</sup> See Pension Benefit Guaranty Corporation (PBGC), *2012 Pension Insurance Data Tables*, table M-4, <http://www.pbgc.gov/documents/2012-Data-Book-Tables.pdf>.

## ***Benefits for Participants in Multiemployer Pension Plans***

PBGC guarantees benefits to multiemployer plans as it does for single-employer plans, although a different guarantee ceiling applies. Multiemployer plans determine benefits by multiplying a flat dollar rate by years of service, so the benefit guaranty ceiling is tied to this formula. The benefit guarantee limit for participants in multiemployer plans equals a participant's years of service multiplied by the sum of (1) 100% of the first \$11 of the monthly benefit rate and (2) 75% of the next \$33 of the benefit rate.<sup>19</sup> For a participant with 30 years of service, the guaranteed limit is \$12,870.<sup>20</sup> This benefit formula is not adjusted for increases in the national wage index.

## **Current Financial Status**

The most commonly used measure of PBGC's financial status is its net financial position, which is the difference between PBGC's assets and its liabilities. At the end of FY2013, PBGC's assets were \$84.9 billion, PBGC liabilities were \$120.6 billion, and its net financial position was -\$35.6 billion.

PBGC's main assets are the value of its trust fund and revolving funds.<sup>21</sup> The trust fund contains the assets of the pension plans of which PBGC becomes trustee and the returns on the trust fund investments. The revolving funds contain the premiums that plan sponsors pay to PBGC, transfers from the trust fund that are used to pay for participants' benefits, and returns on the revolving funds' investments in U.S. Treasury securities.

PBGC's main liabilities are the estimated present values of (1) future benefits payments in the single-employer program and (2) future financial assistance to insolvent plans in the multiemployer program.<sup>22</sup>

**Table 2** provides information on the net financial position of PBGC from FY2002 through FY2013. PBGC has had an end of fiscal year deficit each year since FY2002.

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<sup>19</sup> An accrual rate is a factor in the pension benefit formula (expressed either as a dollar amount or as a percentage of salary) at which a pension benefit is earned. In single-employer pension plans, the pension benefits formula is typically expressed as the number of years participating in the plan times the accrual rate (e.g., 1% or 2%) times a measure of salary (e.g., the average of the participant's highest five years of salary). In multiemployer pension plans, the pension benefits formula is typically expressed as the number of months or years of service times a dollar amount.

<sup>20</sup> This is calculated as  $30 \times ((100\% \times \$11) + (75\% \times \$33)) = \$1,072.50$  per month, which is \$12,870 per year.

<sup>21</sup> Other assets include securities lending collateral and receivables.

<sup>22</sup> Other liabilities include payables. PBGC's benefit obligations are spread out over many years in the future. These future benefits are calculated and reported as current dollar values (also called present value). Benefits that are expected to be paid in a particular year in the future are calculated so they can be expressed as a current value. The process is called discounting and it is the reverse of the process of compounding, which projects how much a dollar amount will be worth at a point in the future. For more information, see the appendix in CRS Report R43305, *Multiemployer Defined Benefit (DB) Pension Plans: A Primer and Analysis of Policy Options*, by John J. Topoleski.

**Table 2. PBGC Single and Multi-Employer Insurance Programs: Net Financial Position, FY2002 - FY2013**

(billions of dollars)

Fiscal Year	Single-Employer Program	Multiemployer Program	Total PBGC Deficit
2002	\$ -3.6	\$ 0.2	\$ -3.5
2003	-11.2	-0.3	-11.5
2004	-23.3	-0.2	-23.5
2005	-22.8	-0.3	-23.1
2006	-18.1	-0.7	-18.9
2007	-13.1	-1.0	-14.1
2008	-10.7	-0.5	-11.2
2009	-21.1	-0.9	-21.9
2010	-21.6	-1.4	-23.0
2011	-23.3	-2.8	-26.0
2012	-29.1	-5.2	-34.3
2013	-27.4	-8.3	-35.7

**Source:** PBGC Pension Insurance Data Books and FY2013 Annual Report.

The weakness in the economy in 2001, particularly in the steel and airline industries, led to large and expensive plan terminations that created a deficit for PBGC. By the end of 2004, the single-employer program had a deficit of \$23.3 billion. The multiemployer program had a surplus from FY1982 to FY2002, but PBGC reported deficits each year since. Some policymakers are concerned with the financial condition of the multiemployer program.<sup>23</sup> Both the single-employer and multiemployer programs are on the Government Accountability Office's (GAO's) list of high-risk government programs.<sup>24</sup>

### Finances of the Single-Employer Insurance Program

**Table 3** shows that approximately 781,000 participants received monthly payments from PBGC in FY2012. The average monthly payment was \$559 and the median monthly payment was \$284. Approximately 28,000 participants received a lump-sum payment in FY2012, and the average amount of the lump-sum payment was \$2,198.

<sup>23</sup> For more information, see CRS Report R43305, *Multiemployer Defined Benefit (DB) Pension Plans: A Primer and Analysis of Policy Options*, by John J. Topoleski.

<sup>24</sup> More information is available at [http://www.gao.gov/highrisk/pension\\_benefit/why\\_did\\_study](http://www.gao.gov/highrisk/pension_benefit/why_did_study).

**Table 3. Pension Benefit Guaranty Corporation (PBGC) Benefit Payments and Payees, 1997 - 2012**

Single-Employer Insurance Program

Fiscal Year	Periodic Pension Payments				Lump-Sum Payments			Number of Deferred Payees (in thousands)
	Total (millions)	Payees in Year (thousands)	Average Monthly Payment	Median Monthly Payment	Total (in Millions)	Payees in Year (thousands)	Average Payment	
1997	800	204	316	212	23	9	2,629	202
1998	826	208	313	208	21	9	2,198	213
1999	844	214	311	208	56	16	3,553	225
2000	831	226	309	206	71	19	3,726	226
2001	954	266	325	208	88	18	4,817	246
2002	1,458	343	383	242	79	21	3,757	326
2003	2,401	457	453	275	87	22	4,220	375
2004	2,918	517	475	281	88	21	4,229	424
2005	3,607	683	487	286	78	17	4,633	489
2006	4,011	612	531	296	71	13	5,145	520
2007	4,179	630	539	281	87	17	5,154	534
2008	4,211	639	534	289	81	17	4,828	495
2009	4,409	743	598	305	69	12	4,289	565
2010	5,361	746	594	316	106	16	6,661	614
2011	5,172	775	579	287	168	48	3,517	595
2012	5,299	781	559	284	85	38	2,198	590

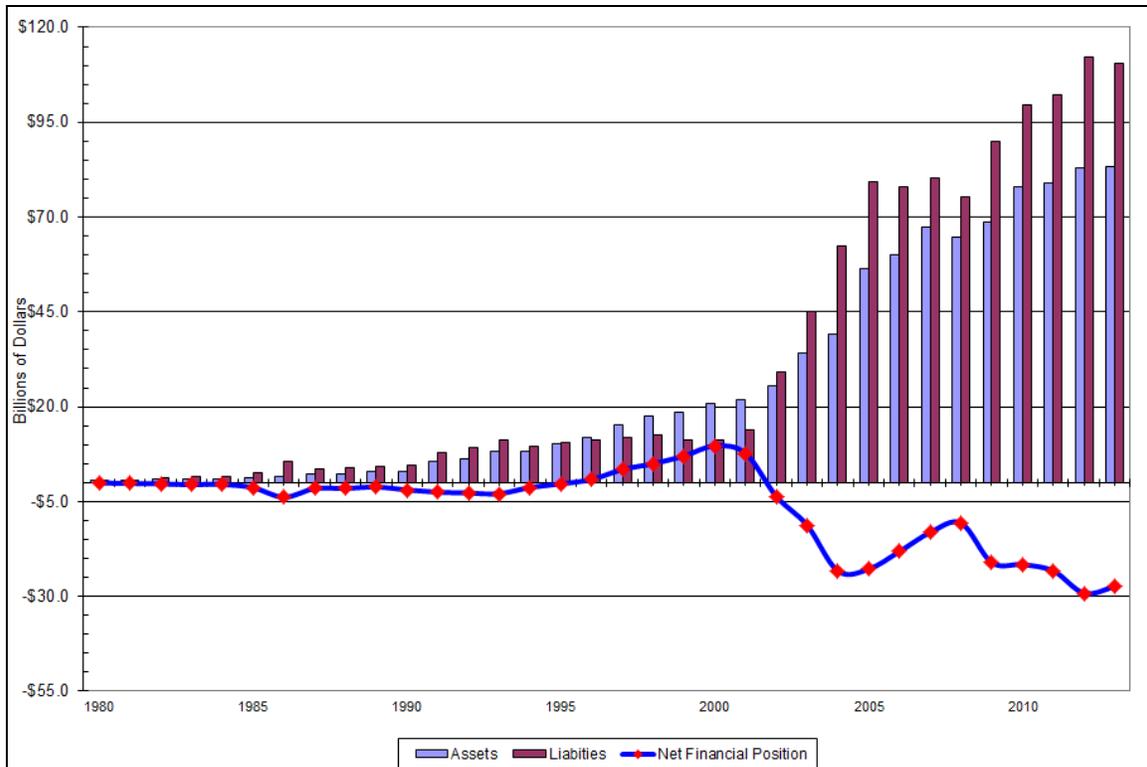
**Source:** Table S-20 Pension Benefit Guaranty Corporation Pension Insurance Data Book, 2012.

**Notes:** Deferred payees are participants who are owed, but not yet receiving, benefits under the plan. Data for FY2013 is not yet available. Due to rounding of individual items, the average monthly payment may not be exactly equal to the number of payees divided by the total payments.

**Figure 1** displays the net financial position of PBGC’s single-employer program from FY1980 to FY2013. In FY1996, PBGC showed a surplus in its single-employer program for the first time in its history. That surplus peaked at \$9.7 billion in FY2000, helped by the strong performance of the equity markets in the 1990s.

**Figure 1. Financial Position of the Single-Employer Insurance Program of the Pension Benefit Guaranty Corporation**

End of Fiscal Year: FY1980 to FY2013



Source: PBGC Pension Insurance Data Books and FY2013 Annual Report.

### Finances of the Multiemployer Insurance Program

**Table 4** indicates that 44 multiemployer plans received financial assistance in FY2013. The FY2013 actuarial report indicated that approximately 74,000 multiemployer plan participants received financial assistance in FY2013 and that approximately 811,000 participants in multiemployer plans were expected to receive financial assistance in the future.<sup>25</sup>

<sup>25</sup> See Pension Benefit Guaranty Corporation, *2013 Actuarial Report*, p. 20, <http://www.pbgc.gov/Documents/2013-actuarial-report.pdf>.

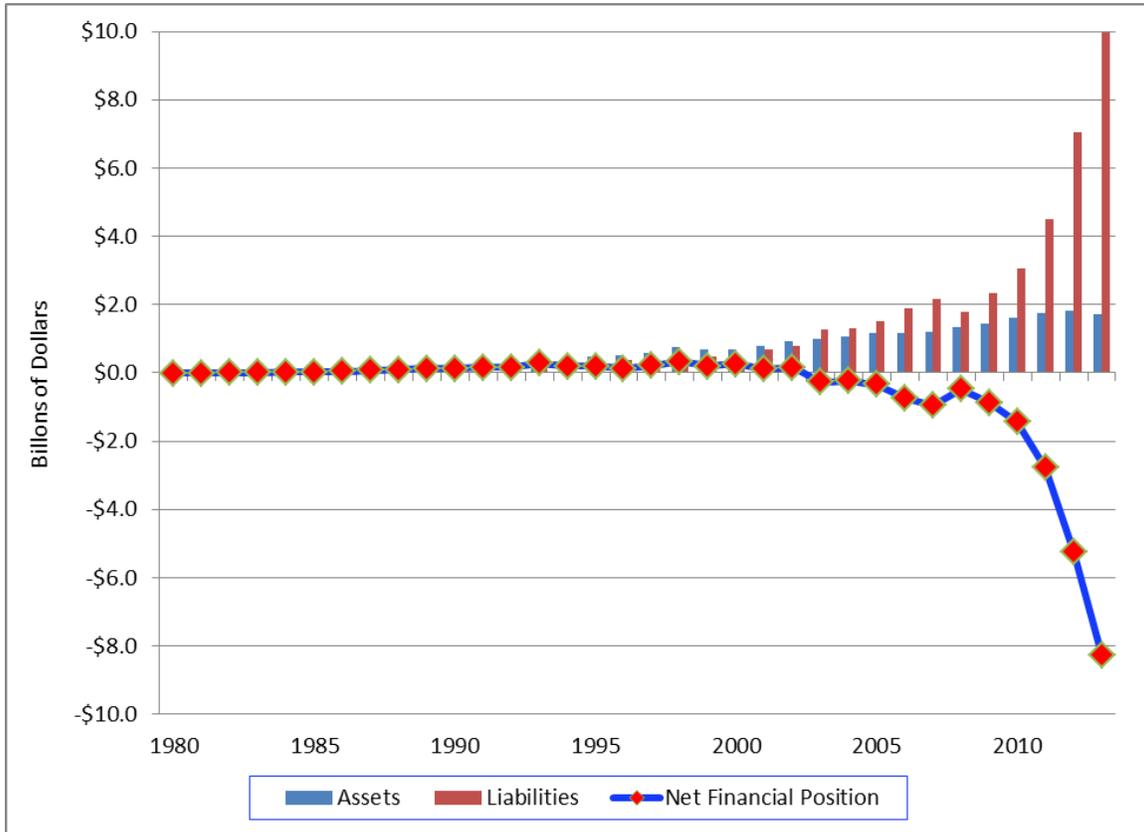
**Table 4. PBGC Multiemployer Insurance Program: Financial Assistance to Pension Plans**

Year	Number of Plans Receiving Financial Assistance	Total Amount of Financial Assistance (in millions)
1995	9	\$4.3
1996	12	4.0
1997	14	4.5
1998	18	5.4
1999	21	19.2
2000	21	91.0
2001	22	4.5
2002	23	4.9
2003	24	5.0
2004	27	10.1
2005	29	13.8
2006	33	70.1
2007	36	71.9
2008	42	84.6
2009	43	85.6
2010	50	97.1
2011	49	114.3
2012	49	95.0
2013	44	89.0

**Source:** PBGC Pension Insurance Data Books and FY2013 Annual Report.

**Figure 2** indicates that the financial condition of the multiemployer insurance program has been worsening. The deficit in the multiemployer insurance program increased from \$5.2 billion in FY2012 to \$8.3 billion in FY2013.

**Figure 2. Financial Position of the Multiemployer Insurance Program of the Pension Benefit Guaranty Corporation**  
 End of Fiscal Year: FY1980 to FY2013



Source: PBGC Pension Insurance Data Books and FY2013 Annual Report.

## PBGC and the Federal Budget

PBGC’s budgetary cash flows are based on its premium income, interest income, benefit outlays, and the interaction of PBGC’s trust and revolving funds.<sup>26</sup> The trust fund contains the assets of the pension plans of which PBGC becomes trustee and the returns on the trust fund investments. The revolving funds contain the premiums which plan sponsors pay to PBGC, transfers from the trust fund which are used to pay for participants’ benefits, and returns on the revolving funds’ investments in U.S. Treasury securities.

### PBGC Trust Fund

When PBGC becomes trustee of a pension plan, the assets of the terminated pension plan are transferred to PBGC and placed in a non-budgetary trust fund. Transfers of assets to the trust fund do not appear in the federal budget and the assets of this trust fund do not appear on the federal

<sup>26</sup> For more information, see Congressional Budget Office, *A Guide to Understanding the Pension Benefit Guaranty Corporation*, September 2005, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/66xx/doc6657/09-23-guidetopbgc.pdf>.

balance sheet. The assets of the trust fund are managed by private-sector money managers in accordance with an investment policy established by PBGC's Board of Directors. The current investment policy establishes assets allocations of 30% for equities and other non-fixed income assets, and 70% for fixed income.<sup>27</sup> Trust fund investments totaled \$60.5 billion at the end of FY2013.<sup>28</sup>

## PBGC Revolving Funds

ERISA authorized the creation of seven revolving funds for PBGC, although only three revolving funds have been used by PBGC. The revolving funds contain the premiums paid by pension plan sponsors, returns on revolving funds' investments, and transfers from the trust fund that are used to pay benefits. Each year, PBGC transfers fund from the trust fund to the revolving funds to pay for a share of participants' benefits.<sup>29</sup>

The investments of the revolving funds are exclusively in U.S. Treasury securities. The assets of the revolving fund at the end of FY2013 were \$1.0 billion for Fund 1, \$1.7 billion for Fund 2, and \$16.4 billion for Fund 7, for a total of \$19.1 billion.<sup>30</sup>

The revolving funds are on-budget accounts: increases or decreases in the revolving funds appear as on-budget federal receipts and outlays. The funds' gross outlays include PBGC benefit payments and administrative expenses and receipts include premiums paid, interest on federal securities, and reimbursements from the trust fund.

Because increases in the premiums paid by pension plan sponsors to PBGC are increases in federal revenue, some groups have criticized recent PBGC premium increases because they feel increases in premiums are used to offset other federal spending, do not address the financial condition of PBGC, and may discourage employers from maintaining their DB pension plans.<sup>31</sup>

## Future Financial Condition

In its FY2013 Projections Report,<sup>32</sup> PBGC estimated its financial condition over the next 10 years (1) the single-employer program's deficit is likely to shrink and the multiemployer program is likely to run out of money. Although PBGC currently operates with a financial deficit, retirees'

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<sup>27</sup> See Pension Benefit Guaranty Corporation (PBGC), "PBGC Board of Directors Approves New Investment Policy," press release, May 26, 2011, <http://www.pbgc.gov/news/press/releases/investment-policy.html>.

<sup>28</sup> See Pension Benefit Guaranty Corporation (PBGC), *PBGC Annual Report 2013*, p. 40, <http://www.pbgc.gov/documents/2013-annual-report.pdf>.

<sup>29</sup> A GAO report indicated that the formula for the transfer is net trust fund assets divided by the present value of future benefits excluding probable terminations. See U.S. Government Accountability Office, *Pension Benefit Guaranty Corporation: Asset Management Needs Better Stewardship*, GAO-11-271, June 2011, <http://www.gao.gov/new.items/d11271.pdf>.

<sup>30</sup> See Pension Benefit Guaranty Corporation (PBGC), *PBGC Annual Report 2013*, p. 40, <http://www.pbgc.gov/documents/2013-annual-report.pdf>.

<sup>31</sup> See, for example, Sean Forbes, "House Approves Budget Agreement That Includes Hikes in PBGC Premiums," *Pension & Benefits Reporter*, December 17, 2013, or Interindustry Forecasting at the University of Maryland, *Increasing Pension Premiums: The Impact on Jobs and Economic Growth*, May 2014, [http://www.nam.org/~media/0948C22BD34742678A3DA9078EA28915/Increasing\\_Pension\\_Premiums\\_Full\\_Report\\_MAY2014.pdf](http://www.nam.org/~media/0948C22BD34742678A3DA9078EA28915/Increasing_Pension_Premiums_Full_Report_MAY2014.pdf).

<sup>32</sup> The Projections Report was formerly called the Exposure Report. It is available at <http://www.pbgc.gov/about/projections-report.html>.

benefits are not at immediate risk because the benefit obligations are paid out over several decades.

PBGC estimated that the single-employer program is likely to remain in deficit over the next 10 years, although the deficit is likely to shrink. The average estimate of PBGC's simulations was a \$7.6 billion deficit in 10 years and a 42.5% chance that the single-employer would not have a deficit in 2023.<sup>33</sup>

PBGC estimated that there is a 75% chance that the multiemployer program will be insolvent by 2023 and a 99% chance that the multiemployer program will be insolvent by 2033. This is a result of the likely insolvency of several large multiemployer pension plans. PBGC's FY2013 Annual Report indicated that the multiemployer program's *reasonably possible* exposure to future financial assistance would be \$36.7 billion.<sup>34</sup> Premium levels are likely inadequate to provide continued financial assistance to insolvent multiemployer plans. The financial assistance to these plans could exhaust PBGC's ability to guarantee participants' benefits. PBGC has indicated that once resources are exhausted in the PBGC's multiemployer program, insolvent plans would be required to reduce benefits to levels that could be sustained through premium collections only.<sup>35</sup>

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<sup>33</sup> To estimate the likelihood of PBGC's future financial condition, PBGC uses an internally developed computer modelling program that it calls the Pension Insurance Modelling System (SIMS). Separate models are used for the single-employer program (SE-SIMS) and the multiemployer program (ME-SIMS). For more discussion of SIMS, see Jeffrey R. Brown, Douglas J. Elliott, and Tracy Gordon, et al., *A Review of the Pension Benefit Guaranty Corporation Pension Insurance Modeling System*, Brookings Institution, September 11, 2013, <http://www.brookings.edu/research/papers/2013/09/11-review-pension-benefit-guaranty-corporation-pension>.

<sup>34</sup> Plans are classified as *reasonably possible* (for future financial assistance) if the plan is ongoing but is projected to be insolvent in 10 years to 20 years.

<sup>35</sup> See Pension Benefit Guaranty Corporation, *PBGC Insurance of Multiemployer Pension Plans*, January 22, 2013, <http://www.pbgc.gov/documents/pbgc-five-year-report-on-multiemployer-pension-plans.pdf>.