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IN FOCUS

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PBGC and Its Single-Employer Insurance Program's Surplus

The Pension Benefit Guaranty Corporation (PBGC) is a government corporation 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 by paying participants' benefits (up to a statutory maximum) if the pension plan is unable to do so. PBGC insures only private sector single-employer and multiemployer *defined benefit* (DB) pension plans. These plans provide a specified monthly benefit at retirement, usually either a percentage of salary or a flat dollar amount multiplied by years of service. Single-employer pension plans are sponsored by one employer and cover eligible workers employed by the plan sponsor. Multiemployer plans are collectively bargained plans to which more than one employer makes contributions. *Defined contribution* (DC) plans, such as 401(k) plans, are not insured. PBGC operates two distinct insurance programs: one for single-employer plans and another for multiemployer plans. This In Focus discusses only PBGC's single-employer insurance program.

Background on PBGC

In FY2024, PBGC's single-employer program insured approximately 23,000 DB pension plans with 19.4 million participants and paid or owed benefits to 1.5 million participants. PBGC has taken over (i.e., become the trustee of) a total of 5,154 terminated DB plans since 1974. ERISA requires PBGC's insurance programs to be self-supporting. These programs do not receive appropriations from general revenue, and ERISA states that the "United States is not liable for any obligation or liability incurred by the corporation."

The two primary sources of funding for PBGC's single-employer program are (1) the premiums set by Congress and paid by the private sector employers that sponsor DB pension plans and (2) the assets from plans trusteed by PBGC. The premiums are placed into an on-budget revolving fund so that receipts and disbursements are counted as federal revenues and expenses. The premium rates in 2025 are (1) a flat-rate premium of $106 per participant, (2) a variable-rate premium of $52 per $1,000 of unfunded vested benefits (the amount of benefits owed to plan participants for which the plan has insufficient assets to pay), and (3) a termination premium of $1,250 per participant for three years after certain involuntary and distress terminations. Other sources of income for the single-employer program are the assets from terminated plans taken over by PBGC (which are placed in a nonbudgetary trust fund), investment income from its revolving fund and trust fund assets, and recoveries collected from companies when they end underfunded pension plans.

Current Financial Position

PBGC's single-employer program's net financial position is the difference between its assets and its liabilities. At the end of FY2024, PBGC's single-employer program's assets (consisting of accumulated premium revenue and the assets of trusteed plans) were $146.1 billion. The program's liabilities were $92.0 billion, of which $78.7 billion was the present value of future benefit obligations owed to participants in trusteed plans. PBGC's single-employer program's FY2024 net financial position was $54.1 billion surplus.

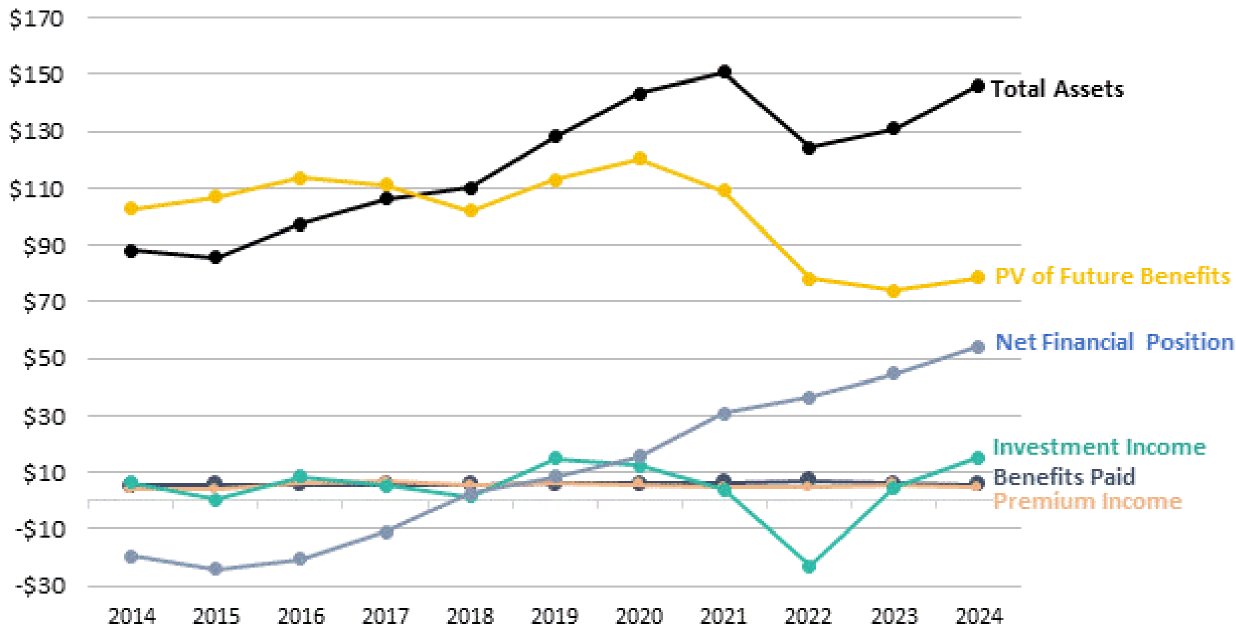
Single-Employer Program: Current and Projected Financial Position

Figure 1 shows PBGC's single-employer program's financial position from FY2014 through FY2024. Since FY2018, the program has had a surplus, increasing from $2.4 billion at the end of FY2018 to $54.2 billion at the end of FY2024. The two main factors contributing to the increasing surpluses have been (1) increases in the amount of assets (primarily due to higher-than-expected investment returns) and (2) decreases in the present value of future benefit obligations (primarily due to unexpected increases in interest rates). While the premium *rates* that plan sponsors pay have increased over the past 10 years, the total dollar amount of premiums collected over the past 10 years ($54.3 billion) was less than the total amount of benefits paid ($60.3 billion).

PBGC's FY2023 Projections Report estimated the program's financial condition in 10 years using a model with a variety of economic assumptions to conduct 5,000 simulations. The simulations produced an average surplus in FY2033 of $71.6 billion. In 15% of the simulations, the FY2033 surplus was less than $60.9 billion, and in 15% of the simulations the surplus was larger than $82.5 billion.

PBGC also conducted a stress test of its financial position that examined the program's surplus under extreme economic conditions (such as large drops in equity values and increases in plan sponsor bankruptcies). PBGC reported the present value of the projected FY2033 financial position to be $49.4 billion under these conditions. PBGC noted that while its liabilities would increase as a result of additional plan terminations, assets would be supplemented by the assets of trusteed plans and increases in variable rate premiums. While the present value of future benefit obligations would rise if interest rates fell, it might not have a large effect on PBGC's surplus. PBGC noted that its investment strategy "seeks to hedge a certain percentage of its interest rate risk."

Figure 1. PBGC Single-Employer Program's Financial Position, FY2014–FY2024



Source: CRS graph using data from PBGC FY2024 Annual Report.

Policy Issues Related to the Surplus

Some stakeholders have suggested policies that could take advantage of the single-employer program's surplus, such as reducing or eliminating premiums or using the surplus for unrelated government spending.

Reducing or Eliminating PBGC Premiums

Reducing or eliminating premiums would likely reduce the single-employer program's surplus over time. With lower levels of (or the absence of) premium revenue, the program's funding would rely on the assets of newly trusteed plans and investment returns. As a result, PBGC would increasingly (in the case of reducing premiums) or solely (in the case of eliminating premiums) rely on transfers from the trust fund to pay for participants' benefits. Poor investment returns (which could lower the amount of trust fund assets) or the termination of several large pension plans or decreases in interest rates (both of which could increase the present value of future benefit payments) could unexpectedly lower the amount of the surplus. However, it is possible that the surplus is large enough that even the occurrence of extreme conditions would not lead to the program's insolvency.

Because PBGC premiums are an offsetting collection and thus treated as negative spending, reducing or eliminating those premiums would be considered a spending increase under applicable budget rules. In addition, if premiums were eliminated, then new DB plans would receive the benefits of PBGC protections without having contributed to the insurance program (though some might argue that this could encourage the formation of new DB plans). Stakeholders have also proposed taking PBGC premiums *off budget*.

Other Uses of the Surplus

It is possible that some stakeholders could view PBGC's single-employer program surplus as a source of funding for government programs or as budgetary offsets (such as for reducing or eliminating premiums). This could prove problematic for several reasons. First, while increases in PBGC premiums have been used as budgetary offsets a number of times in the past 10 years, some policymakers have sought to prohibit this practice and might be opposed to using PBGC's surplus as offsets. In addition, there is no indication that the Congressional Budget Office (CBO) would treat legislatively mandated transfers as offsetting collections, because the trust fund is already under federal control. Finally, PBGC has fiduciary obligations under ERISA with regard to its trust fund assets, and using them for an unrelated purpose might violate those obligations. The U.S. Government Accountability Office (GAO) noted, "When serving as trustee for a terminated plan, PBGC is serving primarily the interest of the pension participants and beneficiaries of the plan in the same manner and to the same degree as a nongovernmental party appointed to the same position."

For Further Information

CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*

GAO, B-223146, October 7, 1986, https://www.gao.gov/products/b-223146

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