

CRS Report for Congress

Received through the CRS Web

Pension Benefit Guaranty Corporation: A Fact Sheet

Paul J. Graney
Analyst in Social Legislation
Domestic Social Policy Division

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 percent of salary or a flat dollar amount multiplied by years of service. *Defined contribution* plans, such as §401(k) plans, are not insured. The PBGC is chaired by the Secretary of Labor, with the Secretaries of Treasury and Commerce serving as board members.

The 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. In 2004, it insured private pensions for 44 million persons participating in about 30,200 plans, including about 1,600 multiemployer plans. In FY2004, PBGC paid over \$3 billion in benefits to almost 520,000 people in about 3,500 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 Financing. The PBGC is required by ERISA to be self-supporting and receives no appropriations from general revenue. The most reliable source of PBGC revenue is the 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 the PBGC, investment income, and recoveries collected from companies when they end underfunded pension plans. The PBGC is authorized to borrow up to \$100 million from the U.S. Treasury. P.L. 96-364 requires that the PBGC's receipts and disbursements be included in federal budget totals.

Premiums. The minimum annual premium charged for each participant in a single-employer DB plan is \$19. An additional premium of \$9 for each \$1,000 of "unfunded vested benefits" is assessed against plans that are not fully funded. Multiemployer plans pay a flat \$2.60 annually per participant.

Pension Benefit Guaranty. ERISA sets a maximum on the individual benefit amount that the PBGC can guarantee. The ceiling for single-employer plans is adjusted annually for national wage growth. The maximum pension guarantee is \$45,613.68 a year for plans that terminate in 2005 as opposed to \$44,386.32 a year for those that terminated in 2004. This amount is decreased if a participant retires before age 65 or if the pension plan provides benefits in some form other than equal monthly payments for the life of the retiree. 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.

In contrast, the ceiling on guaranteed benefits for multiemployer plans is not adjusted annually. The amount set in 1980 did not change until the Consolidated Appropriations Act, 2001 (P.L. 106-554) became law in December 2000. These plans determine benefits by multiplying a flat dollar rate by years of service, so the benefit guaranty ceiling is tied to this formula. The new ceiling equals 100% of the first \$11 of monthly benefits per year of service plus 75% of the next \$33 of monthly benefits per year of service.

Current Financial Picture. In 1996, the PBGC showed a surplus in its single-employer program for the first time in its history. That surplus peaked at \$9.7 million in 2000, helped by the strong performance of the equity markets in the 1990s. The weakness in the economy, particularly in the steel and airline industries, has led to large and expensive plan terminations that have eliminated the surplus and left the single-employer program with a deficit of \$23.3 billion. The multiemployer program had a surplus from 1982 to 2002, but the PBGC reported that it had a deficit of \$236 million in 2004. For more information on PBGC finances, see CRS Report RL32702, *Can the PBGC Be Restored to Financial Health?*, by Neela K. Ranade.

Pension Funding Levels. Private sector DB pension plans are required to report their level of funding to the PBGC, and in 2002 over 270 companies reported underfunding greater than \$50 million. One reason cited for the increase in underfunding is the low interest rate used by PBGC to determine the present value of pension liabilities. (The higher the interest rate, the lower the present value of the liabilities, and vice versa.) Many of the underfunded plans are sponsored by financially healthy firms and pose no real risk to the PBGC. However, total underfunding in plans that may result in “reasonably possible claims,” according to PBGC estimates for September 2004, rose to \$96 billion with most of this exposure coming from airline and steel plans. The general weakness in the economy and the stock market decline’s role in eroding the assets of pension plans have also contributed to the underfunding problem. Many companies whose pension plans reached overfunded status due to appreciation in the value of their assets during the rising stock market are now facing the need to make large contributions.

Retirement Protection Act of 1994. Pension changes proposed by the Retirement Protection Act of 1994 were included in the General Agreement on Tariffs and Trade (P.L. 103-465). This law required underfunded pension plans to pay higher insurance premiums and fund their obligations faster. It eliminated funding loopholes and prescribed interest rate and mortality assumptions that must be used in determining plan liabilities. This law improved PBGC’s access to the records of certain troubled plans and required sponsors of underfunded plans to provide participants with simple notices that state the degree of underfunding and explain the PBGC benefit guarantee. Additional information is available at the PBGC website at [<http://www.pbgc.gov>].