

Pension Guarantee Funds The US Experience



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Current Status of Program

- **Nearly 44 million insured workers in 30,330 defined benefit plans**
- **FY 2006: paid \$4 billion in annual benefits to 612,000 retirees in 3,600 terminated plans**
- **FY 2006: \$18.9 billion deficit (\$61.1 billion Assets less \$80 billion in Liabilities)**

Sources of Income

- **Premiums: \$31 per Participant (Indexed)**
\$9 per \$1,000 of Underfunding
- **Recoveries of Employer Liability for Unpaid Contributions and Underfunding**
- **Investment Income from Trust Funds**

Protections

- **Limits on Guarantees:**

Maximum Benefit (Currently \$49,500 at age 65)

5 Year Phase-in of Benefit Increases

- **Early Warning Program**

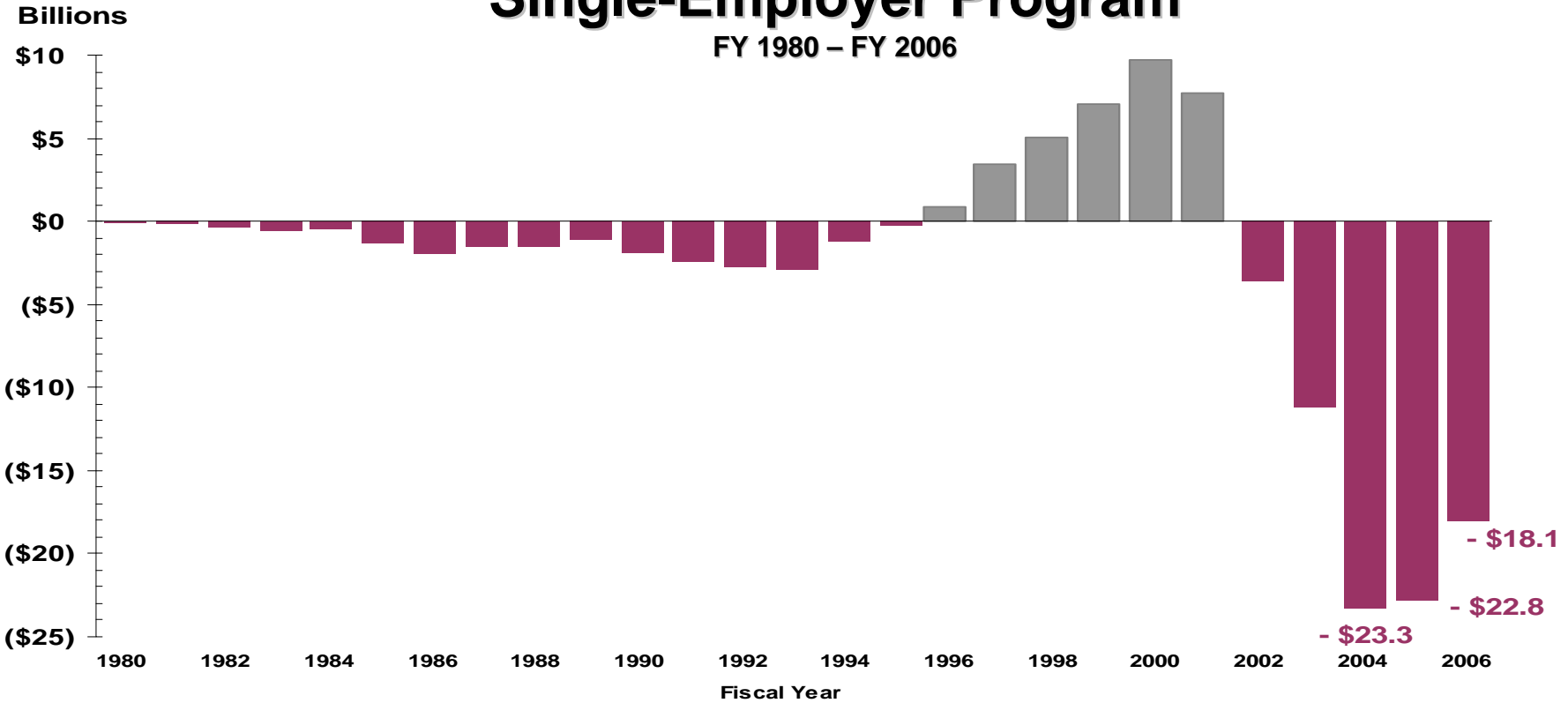
- **Employer Disclosure and Reporting**

- **Minimum Funding Rules**



PBGC Net Position Single-Employer Program

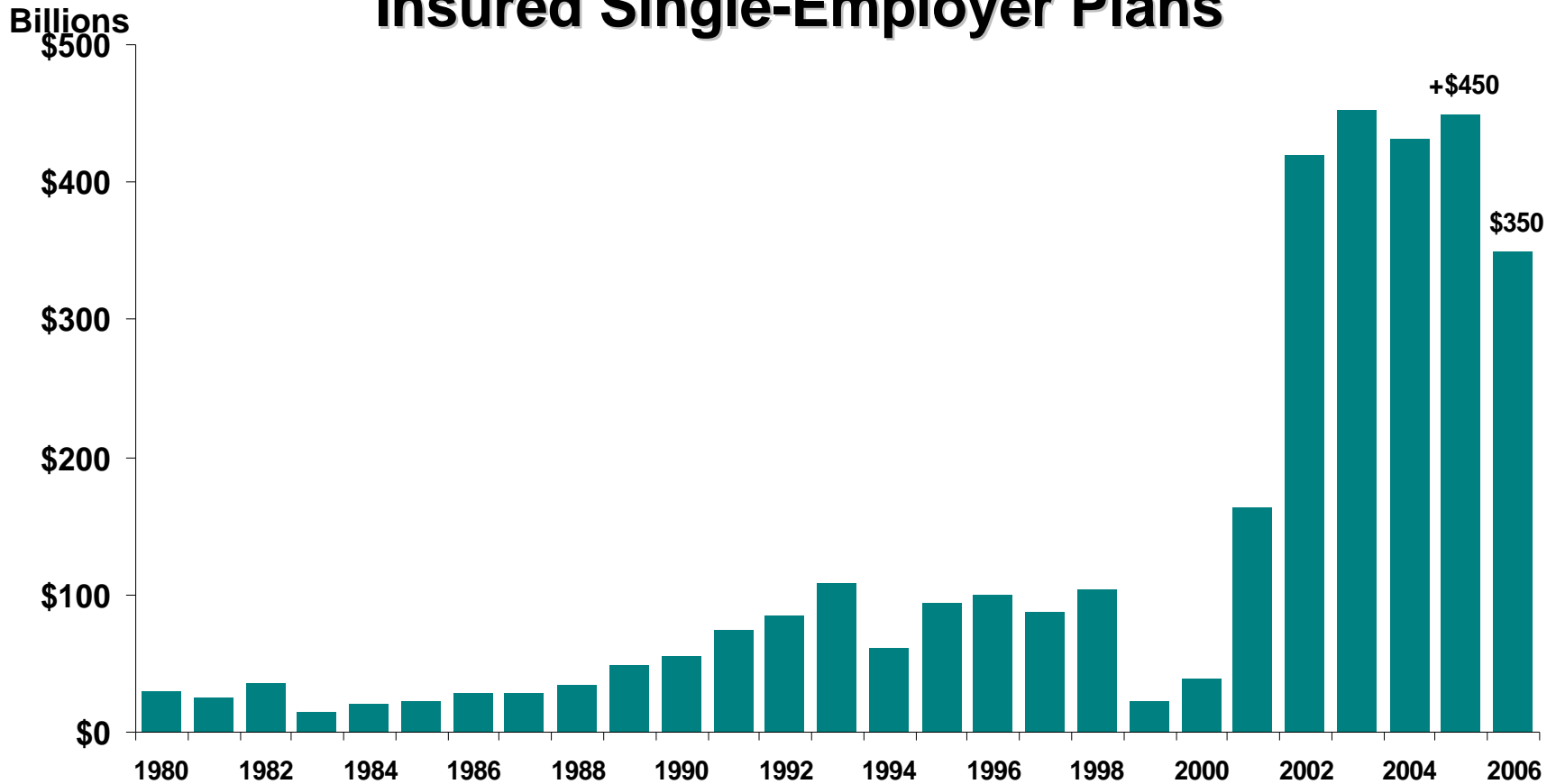
FY 1980 – FY 2006



Data does not include restored LTV plans in 1986



Total Underfunding Insured Single-Employer Plans



Reasonably Possible Exposure

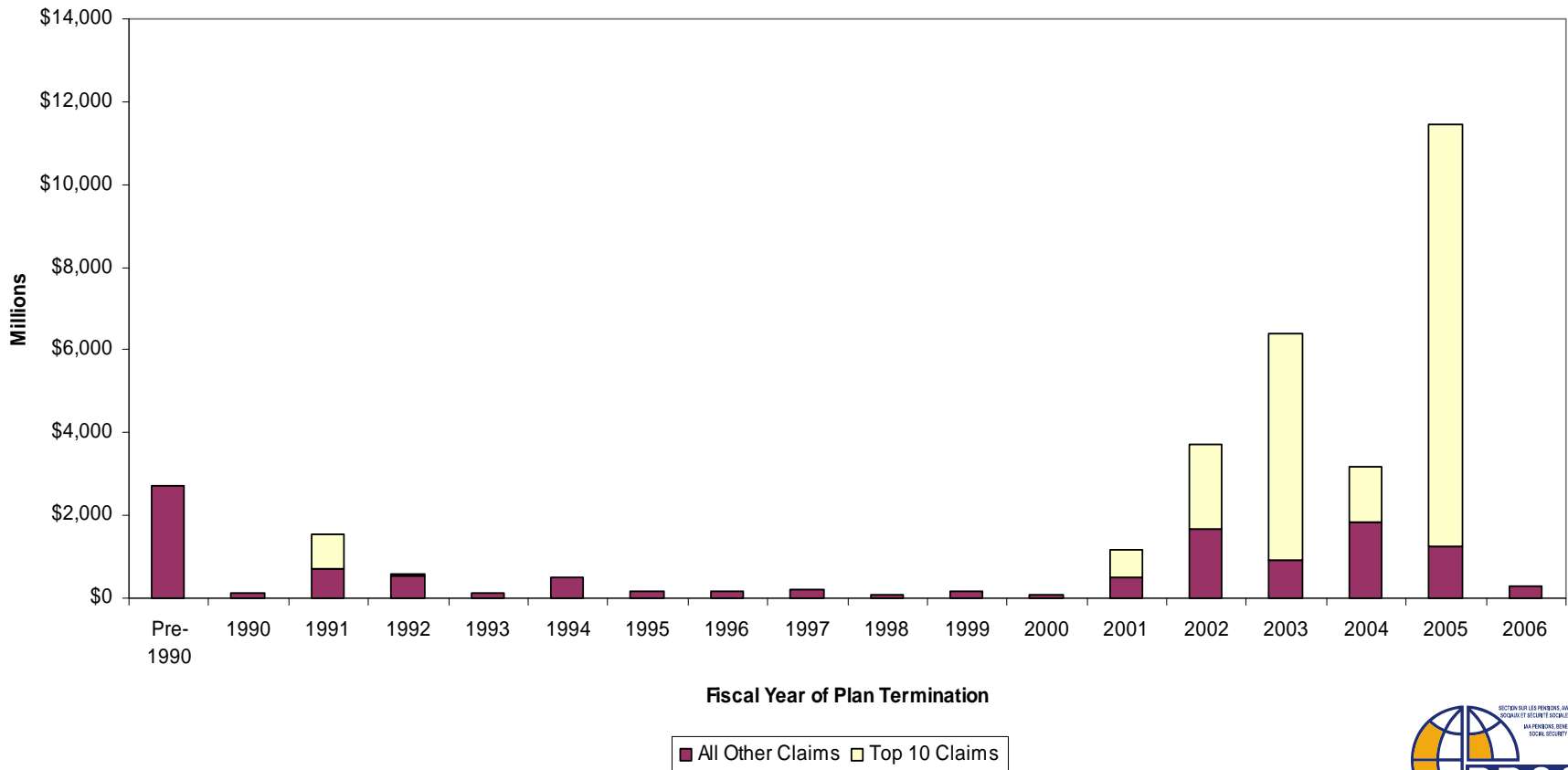
(Dollars in Billions)

Principal Industry Categories	FY 2006	FY 2005
Manufacturing	\$ 37.6	\$ 71.3
Transportation, Communication & Utilities	20.5	17.6
Services & Other	7.0	8.6
Wholesale and Retail Trade	6.1	7.3
Agriculture, Mining & Construction	1.2	1.7
Finance, Insurance & Real Estate	0.9	1.5
Total	\$ 73.3	\$ 108.0



Historic Claims

Concentration of PBGC Claims Single-Employer Program



Top 10 Firms Presenting Claims

FY 1975 – FY 2006

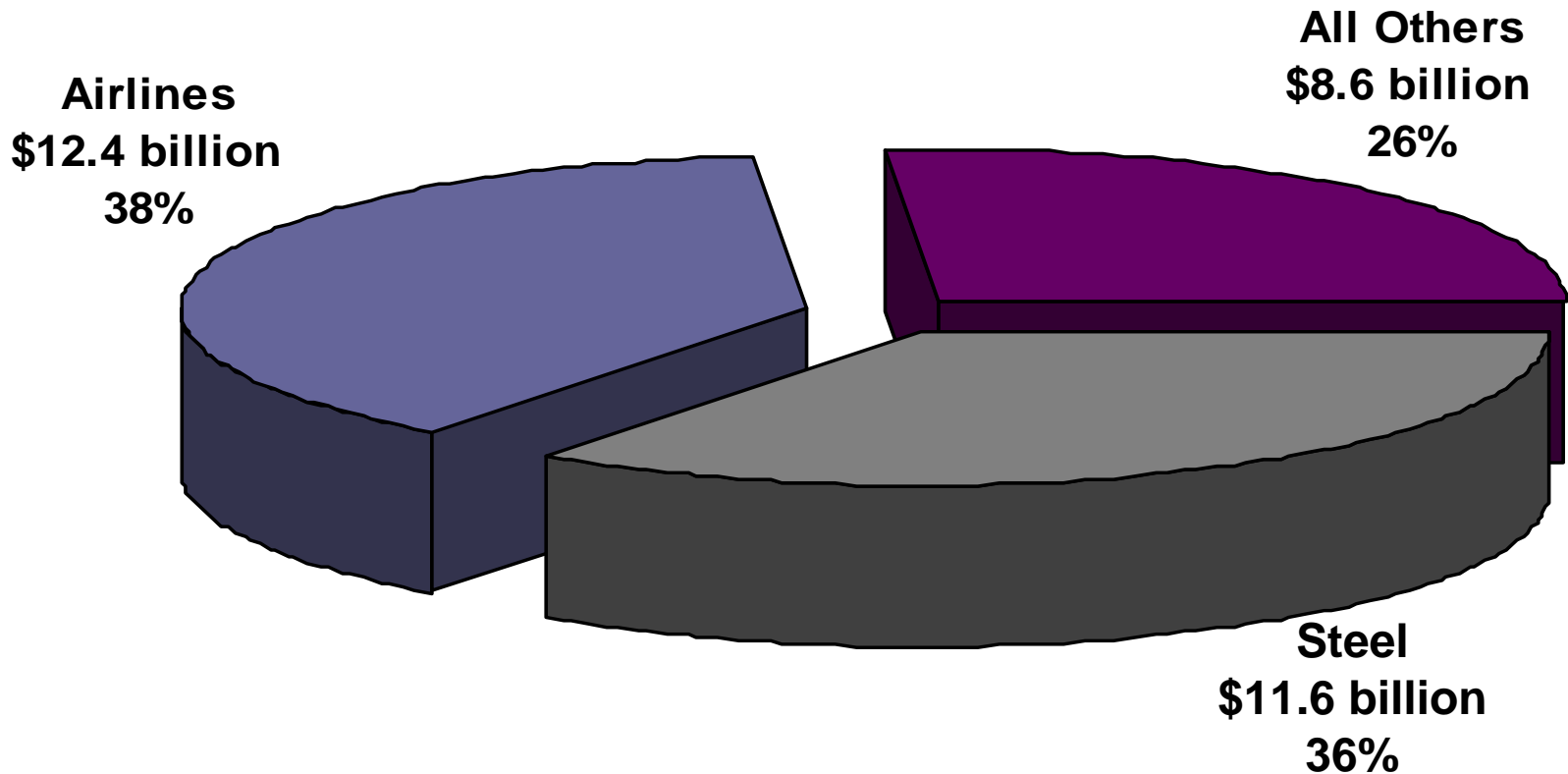
Top 10 Firms	Fiscal Year of Plan Termination	Claims (Billions \$)	Covered Participants	Funded Ratio*
United Airlines	2005	\$ 7.5	122,500	48%
Bethlehem Steel	2003	3.7	97,000	49%
US Airways	2003, 2005	2.7	59,800	52%
LTV Steel	2002, 2003, 2004	2.1	83,900	52%
National Steel	2003	1.3	35,600	52%
Pan American Air	1991, 1992	0.8	37,500	31%
Weirton Steel	2004	0.7	9,200	44%
Trans World Airlines	2001	0.7	34,300	60%
Kaiser Aluminum	2004	0.6	17,600	41%
Kemper Insurance	2005	0.6	12,200	48%

* Funded ratio at termination for PBGC benefits; participants lose additional benefits not covered by PBGC



Historic PBGC Claims

FY 1975 – 2006

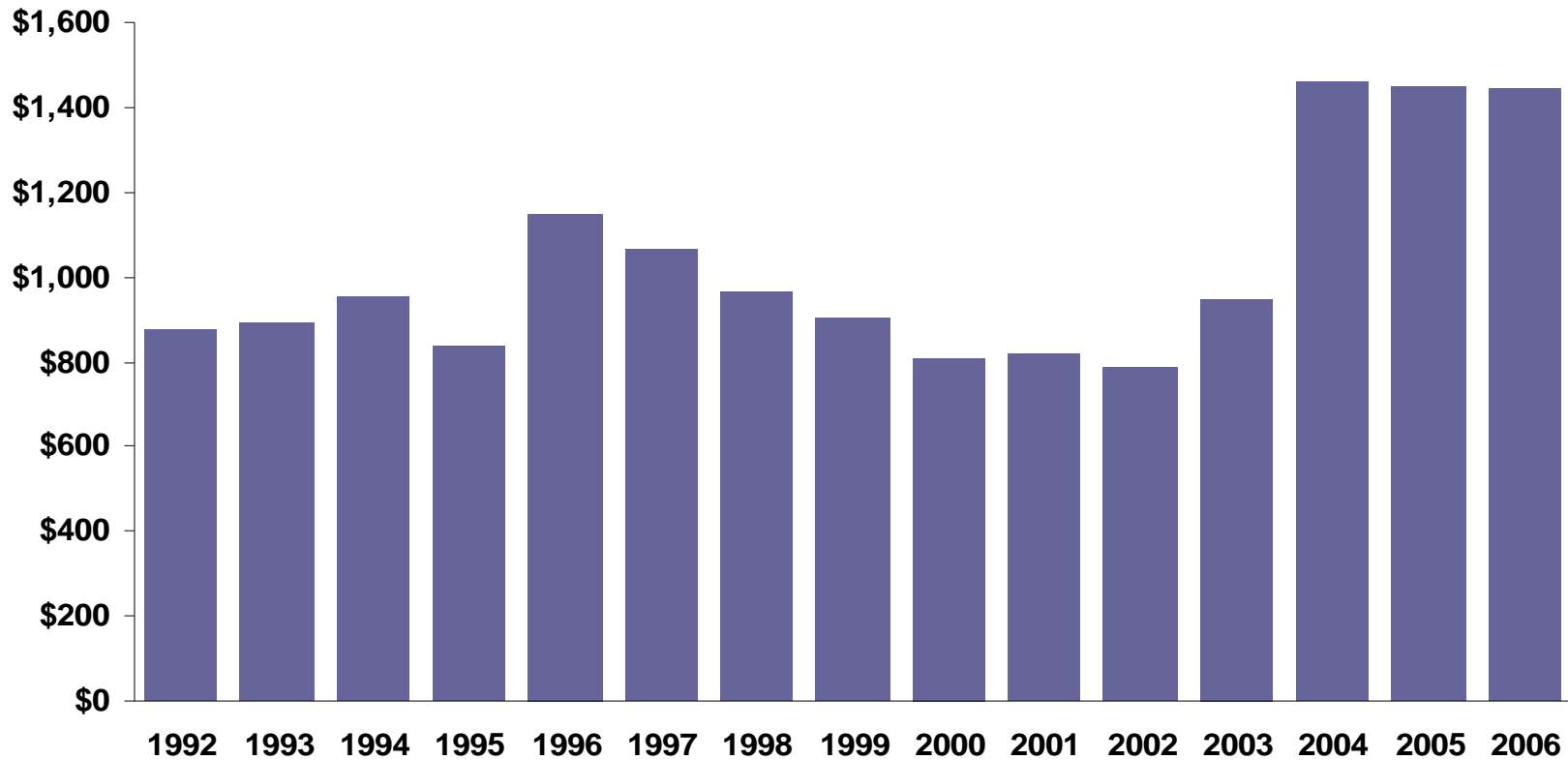


Note: Historically, Steel has represented less than 3% of participants covered by PBGC and Airlines less than 2%.

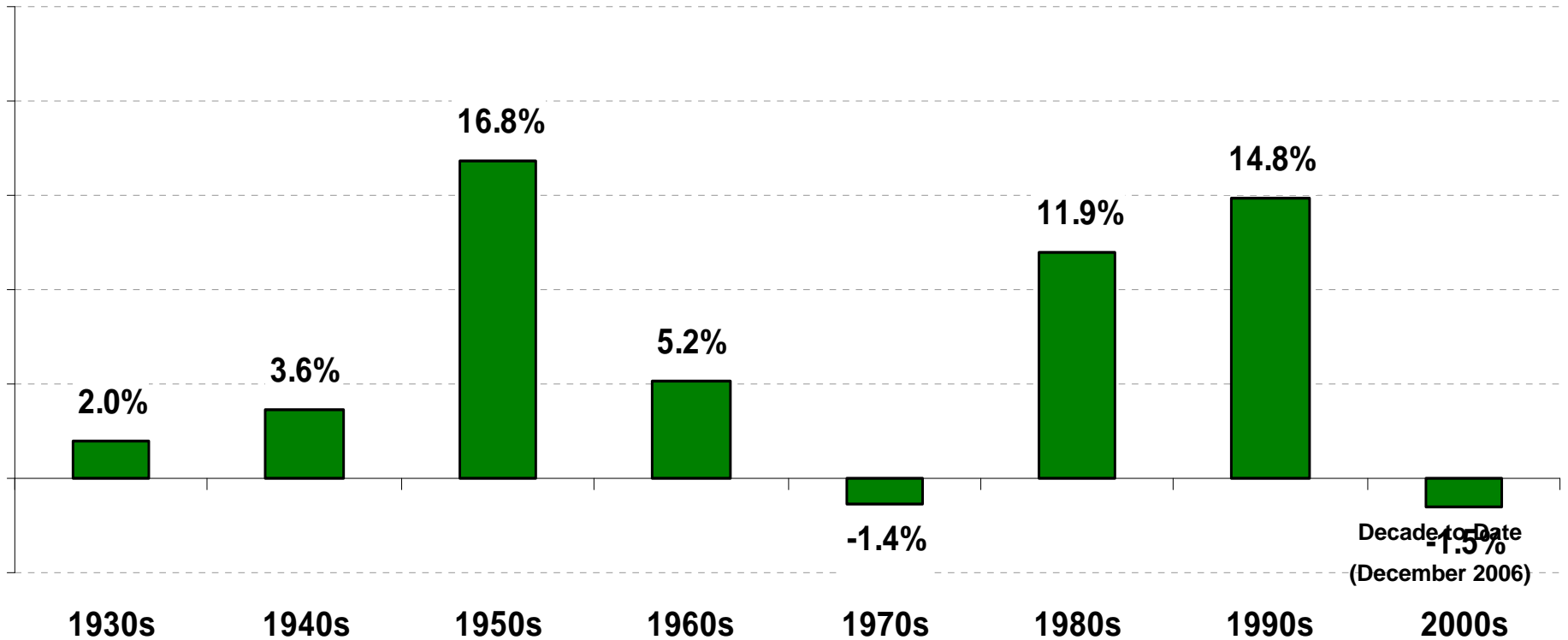


Single-Employer Premium Income

FY 1992 – FY 2006



Real Equity Returns



Source: Ibbotson Associates



Challenges Facing the Defined-Benefit Pension System

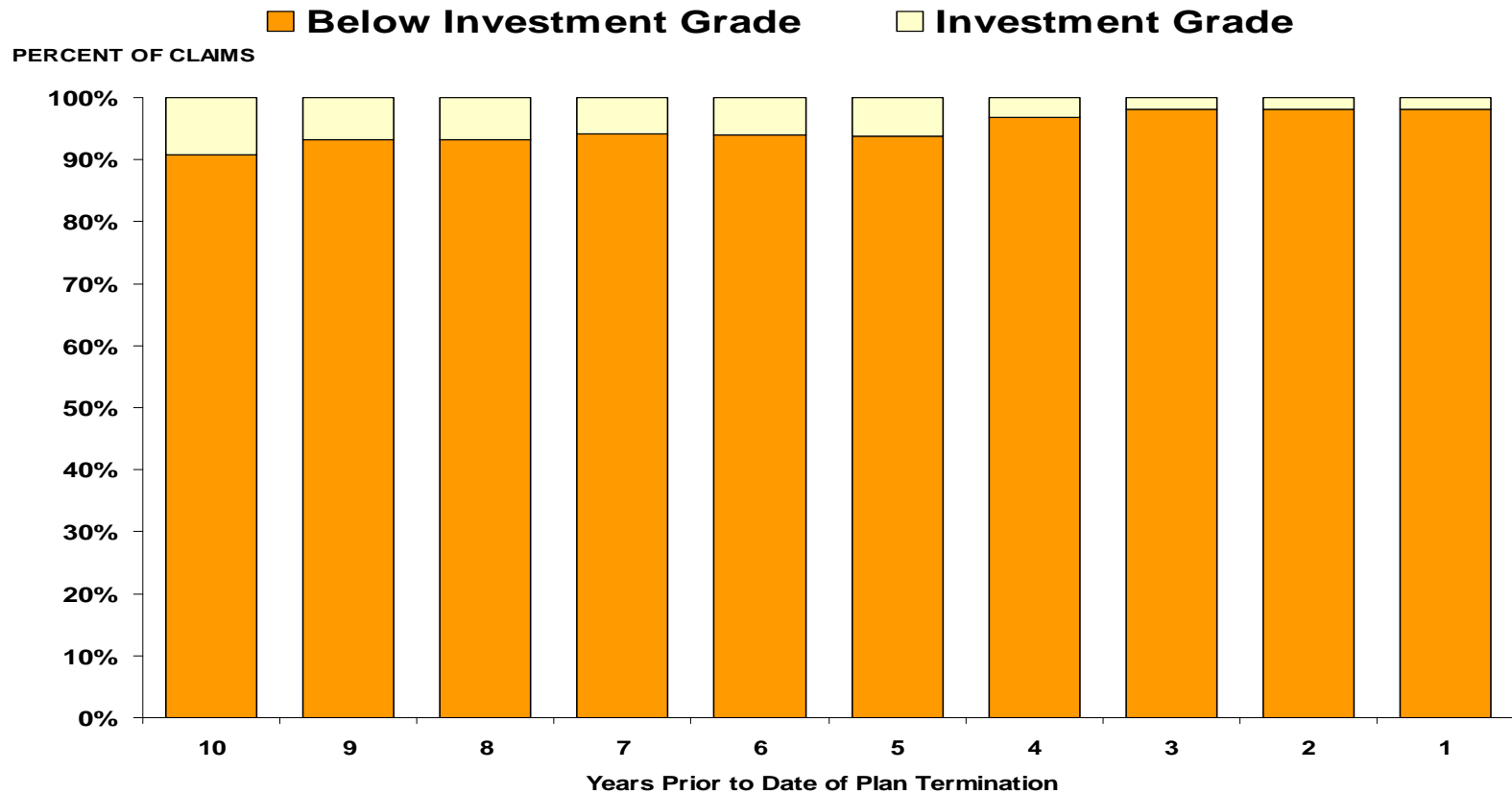
- **The pension insurance system is broken and threatening workers, healthy plan sponsors, and taxpayers**
- **There are three keys to fixing the system:**
 - **Reform funding rules – to induce employers to fully fund their plans**
 - **Reform insurance premiums -- to better reflect costs and risks**
 - **Improve disclosure -- to better inform workers, investors and regulators**

Administration Goals

- **Protect workers**
- **Avoid a taxpayer bailout of PBGC**



Debt Ratings for Large Claims



NOTE: Based on 41 firms in the Top 100 representing 67% of gross claims.



Additional PPA Funding Issues

- **Loss of ERISA Funding Rules**
- **Transitions and phase-ins**
- **Plan-specific mortality**
- **Airline relief**

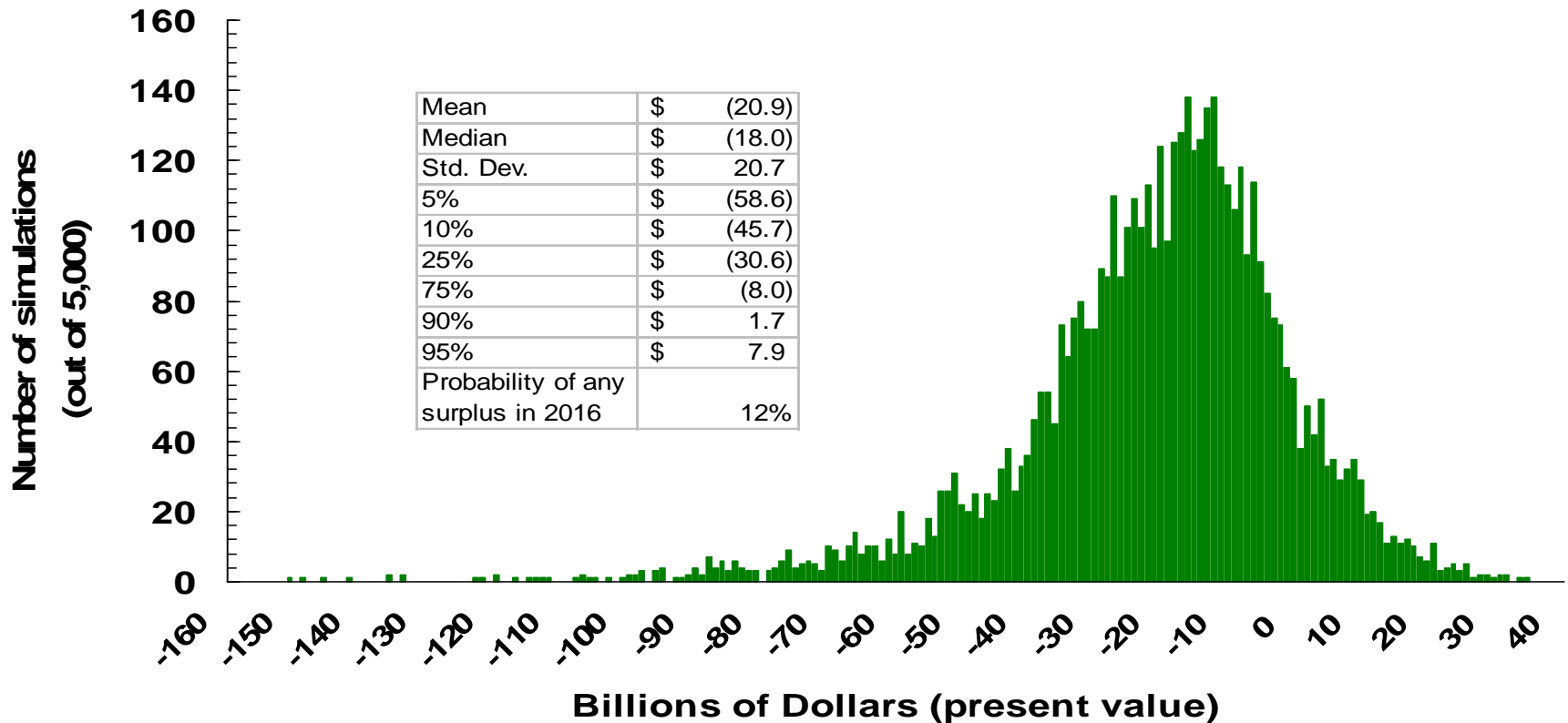
PPA Non-Funding Issues

- **Limit Benefit Increases, Accruals, and Lump Sums for Underfunded Plans**
- **Reform Insurance Premiums**
- **Improve Disclosure**

PPA'S Impact on PBGC's Future Financial Position

- **At median, no change in financial position**
- **Reduction in balance sheet liabilities due to airline relief**
- **Increase in projected variable-rate premium revenues**
- **Increase in projected claims due to:**
 - **Changes in funding rules**
 - **Increased exposure from airlines**

Distribution of PBGC's Potential 2016 Financial Position



Present value of mean PIMS results 2007 - 2016

\$ in billions	Contributions			Claims		
	Mean	Mean as a percentage of		Mean	Mean as a percentage of	
		Prior Law	Prior Law CB forever		Prior Law	Prior law CB forever
Prior law	\$1,242	N/A	109%	\$12.80	N/A	78%
Prior law - if corporate bond relief had been extended permanently	\$1,144	92%	N/A	\$16.50	129%	N/A
Pension Protection Act disregarding airline relief and plan-specific mortality provisions	\$1,216	98%	106%	\$15.50	121%	94%

The above results do not reflect the additional claims resulting from the following PPA provisions:

1. Permitting a plan to use its own mortality table,
2. Providing funding relief for airlines, and
3. Providing funding relief to certain defense contractors, cooperatives, or “settlement” plans.

By not reflecting these provisions, the effectiveness of the Pension Protection Act is substantially overstated.



GAO's Perspective on PPA

An Important Reform with Unfinished Business

- **PPA shrinks, but does not close, many loopholes regarding DB plan funding**
- **PBGC deficit expected to continue to grow**
- **Ultimately does not address fundamental mismatch between DB plan assets and liabilities**
- **Will likely not reverse long-term decline in DB system**

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