Order Code 95-118
Updated January 29, 2008

CRS Report for Congress

Pension Benefit Guaranty Corporation: A Fact Sheet

John J. Topoleski
Analyst in Income Security
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. It insures private pensions for 44 million persons participating in more than 30,300 plans, including about 1,500 multiemployer plans. In FY2007, PBGC paid about $4.3 billion in benefits to almost 1.2 million people in almost 3,800 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 was raised for the 2006 plan year from $19 to $30 by the Deficit Reduction Act (DRA) of 2005 (P.L. 109-171). This law also raised the multiemployer plan premium from a flat $2.60 annually per participant to $8. Because these premiums are now adjusted for inflation, the 2008 rates will be $33 and $9, respectively. The DRA added a new $1,250 per participant premium for certain plans terminated after 2005. This premium is payable for the year of termination and each of the next two years. An additional premium of $9 for each $1,000 of "unfunded vested benefits," as newly defined by the Pension Protection Act (PPA) of 2006 (P.L. 109-280), is assessed against plans that are not fully funded. Effective in 2008, the PPA also eliminates certain exemptions from this variable premium that are presently available.

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 $51,750 a year for plans that terminate in 2008. 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 billion 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 $18.1 billion at the end of FY2006. The deficit decreased to $13.1 billion at the end of FY2007. The multiemployer program had a surplus from 1982 to 2002, but the PBGC reported that it had a deficit of $955 million at the end of FY2007. For more information on PBGC finances, see CRS Report RL33937, *The Financial Health of the Pension Benefit Guaranty Corporation*, by William Klunk.

Pension Funding Levels. Private sector DB pension plans are required to report their level of funding to the PBGC, and in 2005 over 1,100 companies reported underfunding greater than $50 million (the most recent year available). 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, underfunding in plans whose sponsors have below investment grade credit ratings or meet one or more financial distress criteria was $66 billion in September 2007, down from $73 billion the previous year. As of September 30, 2006, the PBGC estimated that the total shortfall in all pension plans exceeded $350 billion.

Additional information is available at the PBGC website at [http://www.pbgc.gov].