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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 FY2014, PBGC insured 23,725 DB pension plans covering 41.2 million people. PBGC paid or owed benefits to 1.5 million people, became the trustee of 97 newly terminated single-employer pension plans, and began providing financial assistance to an additional 9 multiemployer pension plans.

There is a statutory maximum benefit in which PBGC can pay. Participants in single-employer plans that terminate in 2015 and are trusteed by PBGC may receive up to $60,136 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 FY2014, PBGC had a total deficit of $61.8 billion, of which $19.3 billion was from the single-employer program and $42.4 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, but 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 FY2014, PBGC insured about 23,725 DB pension plans covering 41.2 million people. It paid or owed benefits to 1.5 million people. PBGC is the trustee of 4,650 single-employer plans. PBGC provided financial assistance to 53 multiemployer pensions. 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 21st 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 the 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 trusteed 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,"[1] and some Members of Congress have expressed a reluctance to consider providing financial assistance to PBGC.[2] The most reliable source of PBGC revenue is the

[1] See ERISA 4002 §1302(g)(2) and 29 U.S.C. 1302 §(g)(2).

[2] For example, Chairman Phil Roe and then-Ranking Member Robert Andrews, of the Subcommittee on Health, Employment, Labor, and Pensions in the House Education and Workforce Committee, both expressed reservations (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 2015, the premiums are

- *Single-employer flat-rate premium*: The sponsors of single-employer DB pension plans pay an annual premium of $57 for each participant in the plan. This premium will increase to $64 per participant in 2016.
- *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 $24 for each $1,000 of unfunded vested benefits.[3] There is a per-participant limit of $418 for this premium. In 2016, the premium will (1) increase to $29 and then (2) be adjusted based on increases in the average national wage.
- *Multiemployer flat-rate premium*: The sponsors of multiemployer DB pension plans pay an annual premium of $26 for each participant in the plan.
- *Single-employer termination premium*: The sponsors of single-employer DB pension plans that end in certain situations[4] pay an annual premium of $1,250 per participant per year for three years following plan termination.[5]

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

(...continued)

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 and Defined Benefit Pension Plans*, 112th Cong., 2nd 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?*, 113th Cong., 1st sess., June 12, 2013.

[3] 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.

[4] 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.

[5] 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.

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 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 was $412 in 2014 and is $418 in 2015. 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 Multiemployer Pension Reform Act of 2014, enacted as part of P.L. 113-235, increased multiemployer plan premiums to $26 per participant.

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).[6] 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.

[6] See 26 U.S.C. §401.

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;[7] 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.

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.[8] 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 and PBGC maintains separate reserve funds for each program. Funds from the reserve of one program may not be used for the other program.

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 trusteed 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.[9] 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. In such cases, PBGC does not pay any benefits to plan participants. Its role is to confirm that the requirements for termination have been met by the plan. 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

[7] 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.

[8] See 29 U.S.C. §1321.

[9] More information is available in CRS Report RS22624, *The Pension Benefit Guaranty Corporation and Single-Employer Plan Terminations*, by (name redacted) and (name redacted).

benefits.[10] 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.[11] The asset reversion is included in the employer's gross income and is subject to a nondeductible excise tax. The excise tax is 20% of the amount 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: (1) assets in the plan before termination and (2) 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.

[10] 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.

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

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) and the plan has unfunded vested benefits, 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 FY2014, PBGC became the trustee of 4,544 single-employer DB pension plans. In FY2014, PBGC became the trustee of 97 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. Through FY2012, terminations of underfunded plans have made up 3.2% of all terminations.

Table 1. 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

Fiscal Year	Number of Standard Termination Filings	Trusteed Terminations
2011	1,400	85
2012	1,332	61
2013	[a]	111
2014	[a]	97
Total	135,659 [b]	4,544

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 trusteed 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 and FY2014 is not yet available.

b. The total number of standard terminations is through FY2012.

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 the 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 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.[12]

Benefits for Participants in Single-Employer Pension Plans

ERISA sets a maximum on the individual benefit amount that PBGC can guarantee.[13]

The ceiling for single-employer plans is adjusted annually for national wage growth. The maximum pension guarantee is $60,136 a year for workers aged 65 in plans that terminate in 2015. This amount is adjusted annually and is decreased if a participant begins receiving the benefit before age 65 (reflecting the fact that they will receive more monthly pension checks over their expected lifetime) or if the pension plan provides benefits in some form other than equal monthly payments for the life of the retiree.[14] The benefit is increased if a participant begins receiving the benefit after the age of 65 (reflecting the fact that they will receive more monthly pension checks over their expected lifetime). **Table 2** contains examples of PBGC's annual maximum benefit for individuals who begin receiving benefits at the ages of 60, 65, or 70 and who receive either a straight-life annuity or a joint and 50% survivor annuity.

Table 2. Examples of PBGC Annual Maximum Benefits for Plans that Terminate in 2015

	Benefit Begins at Age		
	60	65	70
Straight-Life Annuity	$39,089	$60,136	$99,826
Joint and 50% Survivor Annuity, Assuming both Spouses Are the Same Age	$35,180	$54,122	$89,844

Source: PBGC, Maximum Monthly Guarantee Tables, available at http://www.pbgc.gov/wr/benefits/guaranteed-benefits/maximum-guarantee.html.

The reduction in the maximum guarantee for benefits paid before the age of 65 is 7% for each of the first 5 years under age 65, 4% for each of the next 5 years, and 2% for each of the next 10 years.[15] 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

[12] 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 PBGC, "Benefits Payable in Terminated Single-Employer Plans; Limitations on Guaranteed Benefits; Shutdown and Similar Benefits," 79 *Federal Register* 25667-25675, May 6, 2014.

[13] The maximum benefit is different for participants in terminated single-employer pension plans compared with participants in insolvent multiemployer pension plans.

[14] A straight-life annuity pays the monthly benefit until the participant dies. A joint and 50% survivor annuity provides a participant with fixed monthly lifetime benefit payments and, upon death, continues lifetime payments reduced by 50% to the spouse or other beneficiary.

[15] 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.[16]

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.[17]

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.[18] 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.[19]

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[16] A single life annuity is a benefit that 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.

[17] This is based on a PBGC 2006 study. 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.

[18] See Pension Benefit Guaranty Corporation (PBGC), *PBGC Annual Report 2013*, p. 38, http://www.pbgc.gov/documents/2013-annual-report.pdf.

[19] See 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.[20] For a participant with 30 years of service, the guaranteed limit is $12,870.[21] 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 FY2014, PBGC's assets were $89.8 billion, PBGC liabilities were $151.6 billion, and its net financial position was -$61.8 billion.

PBGC's main assets are the value of its trust fund and revolving funds.[22] 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.[23]

Table 3 provides information on the net financial position of PBGC from FY2002 through FY2014. PBGC has had an end of fiscal year deficit each year since FY2002.

[20] 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.

[21] This is calculated as [30 × ((100% × $11) + (75% ×$33)] = $1,072.50 per month, which is $12,870 per year.

[22] Other assets include securities lending collateral and receivables.

[23] 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 (name redacted).

Table 3. PBGC Single and Multi-Employer Insurance Programs: Net Financial Position, FY2002-FY2014

(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
2014	-19.3	-42.4	-61.7

Source: PBGC Pension Insurance Data Books and FY2013 and FY2014 Annual Reports.

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 policy makers are concerned with the financial condition of the multiemployer program.[24] Both the single-employer and multiemployer programs are on the Government Accountability Office's (GAO's) list of high-risk government programs.[25]

Finances of the Single-Employer Insurance Program

Table 4 shows that approximately 781,000 participants received monthly payments from PBGC in FY2012 (the most recent year for which data are available). 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.

[24] For more information, see CRS Report R43305, *Multiemployer Defined Benefit (DB) Pension Plans: A Primer and Analysis of Policy Options*, by (name redacted).

[25] More information is available at http://www.gao.gov/highrisk/pension_benefit/why_did_study.

Table 4. Pension Benefit Guaranty Corporation (PBGC) Benefit Payments and Payees, 1997-2012

(single-employer insurance program)

	Periodic Pension Payments				Lump-Sum Payments			
Fiscal Year	Total (millions)	Payees in Year (thousands)	Average Monthly Payment	Median Monthly Payment	Total (millions)	Payees in Year (thousands)	Average Payment	Number of Deferred Payees (thousands)
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

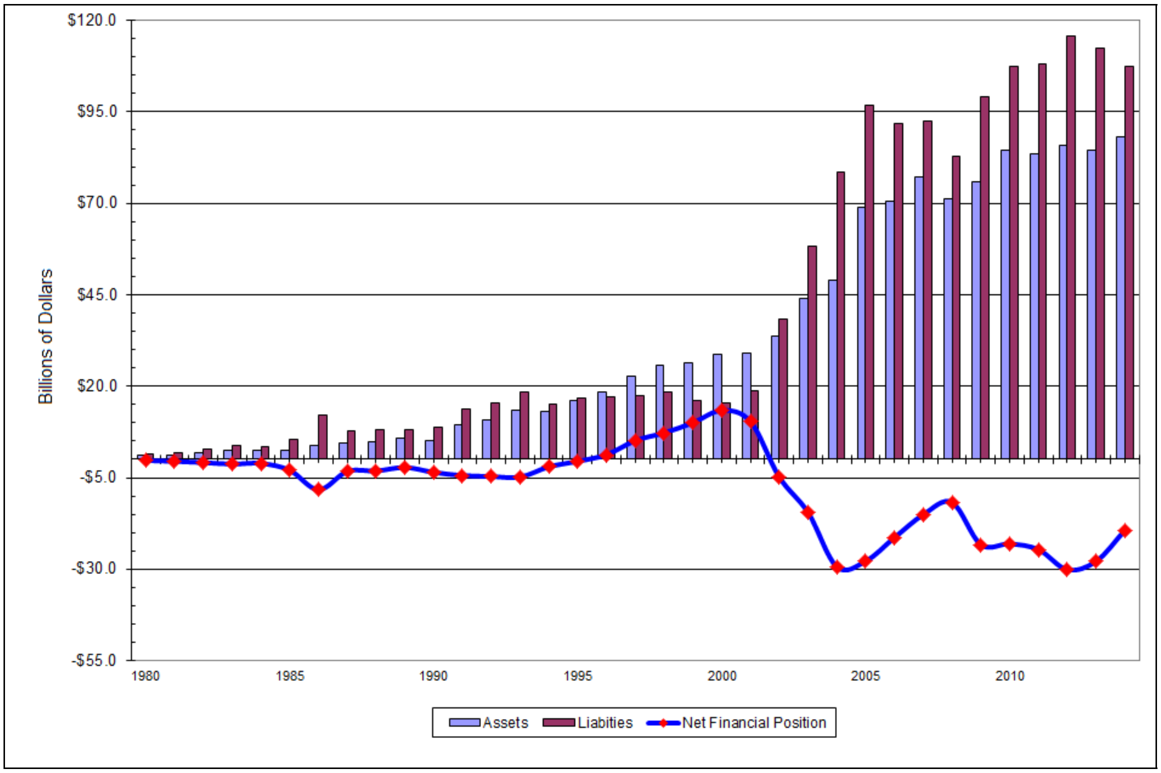
Source: Table S-20 Pension Benefit Guaranty Corporation Pension Insurance Data Book, 2012.

Notes: Deferred payees are participants who are owed, but not yet receiving, benefits under the plan. Data for FY2013 and FY2014 are not 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 FY2014. 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 FY2014)



Source: PBGC Pension Insurance Data Books and FY2013 and FY2014 Annual Reports.

Note: CRS adjusted the dollar amounts for inflation using the fiscal year (October to September) monthly averages for the Consumer Price Index, All Urban Consumers (CPI-U).

Finances of the Multiemployer Insurance Program

Table 5 indicates that 53 multiemployer plans received financial assistance in FY2014. The FY2014 actuarial report indicated that approximately 76,000 multiemployer plan participants received financial assistance in FY2014 and that approximately 892,000 participants in multiemployer plans were expected to receive financial assistance in the future.[26]

[26] See PBGC, *2013 Actuarial Report*, p. 20, http://www.pbgc.gov/Documents/2013-actuarial-report.pdf.

Table 5. PBGC Multiemployer Insurance Program: Financial Assistance to Pension Plans

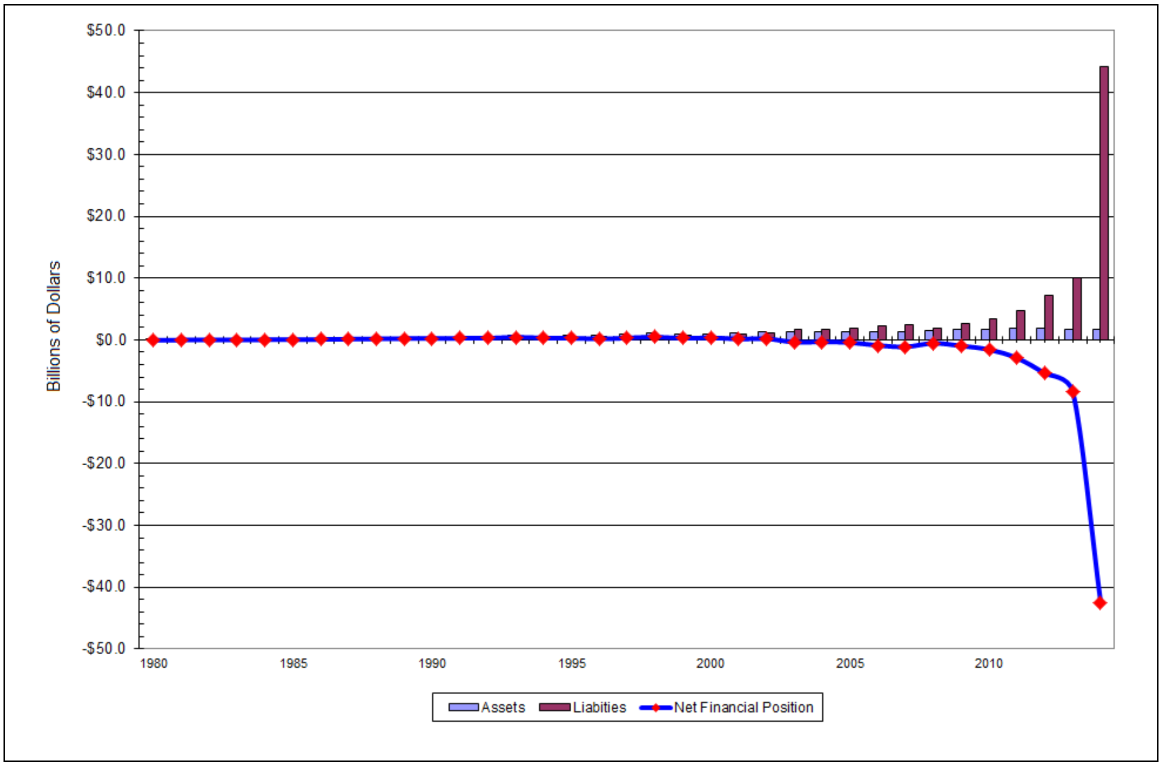
Year	Number of Plans Receiving Financial Assistance	Total Amount of Financial Assistance (millions)
1995	9	$4.3
1996	12	4.0
1997	14	4.5
1998	18	5.4
1999	21	19.2
2000	21	91.0
2001	22	4.5
2002	23	4.9
2003	24	5.0
2004	27	10.1
2005	29	13.8
2006	33	70.1
2007	36	71.9
2008	42	84.6
2009	43	85.6
2010	50	97.1
2011	49	114.3
2012	49	95.0
2013	44	89.0
2014	53	97.0

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 and then to $442.4 billion in FY2014. The large increase in the deficit in FY2014 was the result of the increase in the likelihood of the insolvency of several large multiemployer pension plans in financial distress.

Figure 2. Financial Position of the Multiemployer Insurance Program of the Pension Benefit Guaranty Corporation

(End of Fiscal Year: FY1980 to FY2014)



Source: PBGC Pension Insurance Data Books and FY2013 and FY2014 Annual Reports.

Note: CRS adjusted the dollar amounts for inflation using the fiscal year (October to September) monthly averages for the Consumer Price Index, All Urban Consumers (CPI-U).

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.[27] The trust fund contains the assets of the pension plans of which PBGC becomes trustee and the returns on the trust fund investments. 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 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 nonbudgetary 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

[27] 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.[28] Trust fund investments totaled $60.5 billion at the end of FY2013.[29]

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 funds from the trust fund to the revolving funds to pay for a share of participants' benefits.[30]

The investments of the revolving funds are exclusively in U.S. Treasury securities. The revolving funds' assets 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.[31]

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.[32]

Future Financial Condition

In its FY2013 Projections Report,[33] PBGC estimated its financial condition over the next 10 years, 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' benefits are not at immediate risk because the benefit obligations are paid out over several decades.

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[28] See PBGC, "PBGC Board of Directors Approves New Investment Policy," press release, May 26, 2011, http://www.pbgc.gov/news/press/releases/investment-policy.html.

[29] See PBGC, *PBGC Annual Report 2013*, p. 40, http://www.pbgc.gov/documents/2013-annual-report.pdf.

[30] 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 GAO, *Pension Benefit Guaranty Corporation: Asset Management Needs Better Stewardship*, GAO-11-271, June 2011, http://www.gao.gov/new.items/d11271.pdf.

[31] See PBGC, *PBGC Annual Report 2013*, p. 40, http://www.pbgc.gov/documents/2013-annual-report.pdf.

[32] See, e.g., 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.

[33] The Projections Report was formerly called the Exposure Report. It is available at http://www.pbgc.gov/about/projections-report.html.

PBGC estimated that the single-employer program is likely to remain in deficit over the next 10 years, although the deficit is likely is 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.[34]

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.[35] 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 PGBC's multiemployer program, insolvent plans would be required to reduce benefits to levels that could be sustained through premium collections only.[36]

The Multiemployer Pension Reform Act of 2014, enacted as part of P.L. 113-235, allows, among other provisions, multiemployer DB pension plans that expect to become insolvent to reduce benefits to participants in these plans. An insolvent plan has no assets from which to pay any benefits. Plans that reduce benefits to forestall insolvency would not require financial assistance from PBGC, and would reduce the amount of future financial assistance PBGC would expect to provide. This would likely improve PBGC's financial condition, although PBGC has not released any analysis of the effect of these provisions on its financial condition.

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[34] 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.

[35] 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.

[36] See PBGC, *PBGC Insurance of Multiemployer Pension Plans*, January 22, 2013, http://www.pbgc.gov/documents/pbgc-five-year-report-on-multiemployer-pension-plans.pdf.