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An Overview of the Pension Benefit Guaranty Corporation (PBGC)

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 if the pension plan is unable to do so. PBGC insures only 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* (DC) plans, such as 401(k) plans, are not insured. More detailed information about PBGC is available in CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*.

In FY2020, PBGC insured approximately 25,000 DB pension plans covering about 34 million people. PBGC operates two distinct insurance programs: one for single-employer pension plans and a second for multiemployer plans. 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 company makes contributions. PBGC maintains separate reserve funds for each program, and funds from the reserve of one program may not be used for the other program.

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.

PBGC Financing

PBGC is required by ERISA to be self-supporting and receives no appropriations from general revenue. ERISA Section 4002(g)(2) states that the "United States is not liable for any obligation or liability incurred by the corporation," and some Members of Congress have expressed a reluctance to consider providing financial assistance to PBGC. 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 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. Except for the termination premium, the premiums are increased annually for changes in the national wage index.

In 2021, the premiums are:

- *Single-employer flat-rate premium*: The sponsors of single-employer DB pension plans pay an annual premium of $86 for each participant in the plan.
- *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 $46 for each $1,000 of unfunded vested benefits. There is a per-participant limit of $582 for this premium.
- *Single-employer termination premium*: The sponsors of single-employer DB pension plans that end in certain situations pay an annual premium of $1,250 per participant per year for three years following plan termination.
- *Multiemployer flat-rate premium*: The sponsors of multiemployer DB pension plans pay an annual premium of $31 for each participant in the plan.

Pension Benefit Insurance Programs

In the single-employer program, PBGC becomes the trustee of the terminated, underfunded single-employer DB pension plans. The terminated plan's assets are placed in a PBGC-operated trust fund. The participants in the trusteed plans receive their benefits from PBGC. Since 1974, PBGC has trusteed 5,031 single-employer pension plans.

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. Through FY2020, PBGC has provided financial assistance to 91 multiemployer plans.

Single-Employer Pension Insurance Program

When an underfunded plan terminates, the benefits PBGC will pay depend on the statutory limit on guaranteed benefits, the amount of the terminated plan's assets, and recoveries by PBGC from the employer that sponsored the terminated plan.

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. In general, 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.

ERISA sets a maximum on the individual benefit amount that PBGC can guarantee. The maximum pension guarantee is $72,409 a year for workers aged 65 in plans that terminate in 2021. This amount is adjusted annually for changes in the national average wage. In addition, the benefit is decreased if participants begin 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.

In FY2020, PBGC's single-employer program paid a total of $6.1 billion in payments. Approximately 984,000 participants were receiving monthly benefit payments at the end of FY2020.

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 are insufficient to pay benefits that come due in the next plan year. More information on multiemployer plans is available in CRS Report R43305, *Multiemployer Defined Benefit (DB) Pension Plans: A Primer*.

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. PBGC may provide loans to the plan year after year. Only one multiemployer plan has repaid any of its financial assistance.

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 guarantee 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. For a participant with 30 years of service, the guaranteed limit is $12,870. This benefit formula is not adjusted for increases in the national wage index or by any other measure of inflation or cost of living.

Approximately 79,600 multiemployer plan participants in 91 plans received financial assistance in FY2020. In the next 10 years, 101 multiemployer plans covering 1.1 million participants are expected to receive financial assistance totaling $63.9 billion (in present value terms).

Current Financial Status

The most commonly used measure of PBGC's financial status is its net financial position, which is the difference between its assets and its liabilities. At the end of FY2020, PBGC's assets were $146.6 billion, PBGC's liabilities (mostly future benefit obligations) were $194.9 billion, and its net financial position was a deficit of $48.3 billion. PBGC is not at risk of immediate insolvency, because it has sufficient resources from which to pay benefits for the next several years.

Since 2018, the single-employer program has had a surplus. The surplus in FY2020 was $15.5 billion.

The deficit in the multiemployer insurance program increased from $8.3 billion in FY2013 to $42.4 billion in FY2014 and to $63.7 billion in FY2020. 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.

Some policymakers are concerned with the financial condition of the multiemployer program. PBGC estimated that it is highly likely that the multiemployer program will be insolvent by 2026 and that it will almost certainly become insolvent by 2027. Both the single-employer and multiemployer programs are on the Government Accountability Office's list of high-risk government programs.

John J. Topoleski, Specialist in Income Security
Elizabeth A. Myers, Analyst in Income Security

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