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Updated February 7, 2023

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 single-employer and multiemployer *defined benefit* (DB) pension plans. These plans provide a specified monthly benefit at retirement, usually either a percentage of salary or a flat dollar amount multiplied by years of service. 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. *Defined contribution* (DC) plans, such as 401(k) plans, are not insured. More information about PBGC is available in CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*.

In FY2022, PBGC insured approximately 25,000 DB pension plans covering about 33 million people. PBGC operates two distinct insurance programs: one for single-employer plans and a second for multiemployer plans. PBGC maintains separate reserve funds for each program, and funds from the reserve of one program may not be used for the other program. The American Rescue Plan Act of 2021 (P.L. 117-2) authorized Special Financial Assistance (SFA)—a new program—for eligible financially troubled multiemployer DB plans.

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's single-employer and multiemployer insurance programs are required by ERISA to be self-supporting. These programs receive no appropriations from general revenue. SFA provides assistance to multiemployer plans but is accounted for separately from the *traditional* financial assistance provided by PBGC's multiemployer insurance program to insolvent plans. Although ERISA states that the "United States is not liable for any obligation or liability incurred by the corporation," funds provided through the enactment of SFA are intended to ensure the continued solvency of the multiemployer program.

The single-employer and multiemployer programs are funded by premiums set by Congress and paid by the private sector employers that sponsor DB pension plans. Other sources of income for the single-employer program are assets from terminated plans taken over by PBGC, investment income, and recoveries collected from companies when they end underfunded pension plans. In addition to premiums, the multiemployer program also receives investment income on its revolving fund assets. The SFA program, which is financed by appropriations from Congress, results in a new source of financing outside of PBGC's revolving fund.

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 2023, the premiums are

- *Single-employer flat-rate premium*: The sponsors of single-employer DB plans pay an annual premium of $96 for each participant in the plan.
- *Single-employer variable-rate premium*: The sponsors of underfunded single-employer DB plans pay an additional annual premium of $52 for each $1,000 of unfunded vested benefits. There is a per-participant limit of $652 for this premium.
- *Single-employer termination premium*: The sponsors of single-employer DB 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 plans pay an annual premium of $35 for each participant in the plan.

Pension Benefit Insurance Programs

In the single-employer program, PBGC becomes the trustee of terminated, underfunded single-employer DB 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 5,100 single-employer 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 FY2022, PBGC has provided financial assistance to 115 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 $81,000 a year for workers aged 65 in plans that terminate in 2023. 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 FY2022, PBGC's single-employer program paid a total of $7.1 billion in payments. Approximately 963,000 participants were receiving monthly benefit payments at the end of FY2022.

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 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. 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 93,525 multiemployer plan participants in 115 plans received $226.3 million in financial assistance in FY2022. In the next 10 years, 50 multiemployer plans covering 63 million participants are expected to receive financial assistance totaling $839 million (in present value terms).

Special Financial Assistance for Multiemployer Plans

PBGC administers the SFA program, which provides financial assistance to certain financially troubled multiemployer plans. SFA is funded by transfers from the general fund of the U.S. Treasury. Plans approved for SFA receive a lump-sum payment intended to ensure that they can remain solvent through 2051. In July 2022, PBGC estimated that it would provide total SFA ranging from $74 billion to $91 billion. Unlike the financial assistance for insolvent multiemployer plans described in the previous section, plans do not have to repay SFA.

Current Financial Status

PBGC's net financial position is the difference between its assets and its liabilities. At the end of FY2022, PBGC's assets were $127.9 billion, PBGC's liabilities (mostly future benefit obligations) were $90.3 billion, and its net financial position was a $37.6 billion surplus. PBGC is not at risk of immediate insolvency because it has sufficient resources to pay benefits for the next several years.

Since 2018, the single-employer program has had a surplus. The single-employer program surplus in FY2022 was $36.6 billion. In FY2021, PBGC's multiemployer program had a surplus for the first time since FY2001. This increase in net financial position was largely due to federal financial assistance to the United Mine Workers of America 1974 Pension Plan (P.L. 116-94) and to SFA for certain multiemployer plans. The multiemployer program surplus in FY2022 was $1.1 billion.

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