



Highlights of [GAO-08-1162T](#), a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The Pension Benefit Guaranty Corporation (PBGC) insures the retirement future of nearly 44 million people in more than 30,000 private-sector defined benefit pension plans.

In July 2003, GAO designated PBGC's single-employer pension insurance program—its largest insurance program—as “high risk,” including it on GAO's list of major programs that need urgent attention and transformation. The program remains on the list today with a projected financial deficit of just over \$13 billion, as of September 2007.

Because Congress exercises oversight of PBGC, GAO was asked to testify today on 1) the critical role PBGC plays in protecting the pension benefits of workers and how PBGC is funded, 2) the financial challenges facing PBGC, and 3) the PBGC's governance, oversight and management challenges.

To address these objectives, we are relying on our reports from the last several years that, as part of our designation of PBGC's single-employer program as high-risk, explored the financial and management challenges facing the agency. GAO has made a number of recommendations and matters for Congressional consideration in these past reports. PBGC generally agreed with these past recommendations and is implementing many of them. No new recommendations are being made as part of this testimony.

To view the full product, including the scope and methodology, click on [GAO-08-1162T](#). For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

PENSION BENEFIT GUARANTY CORPORATION

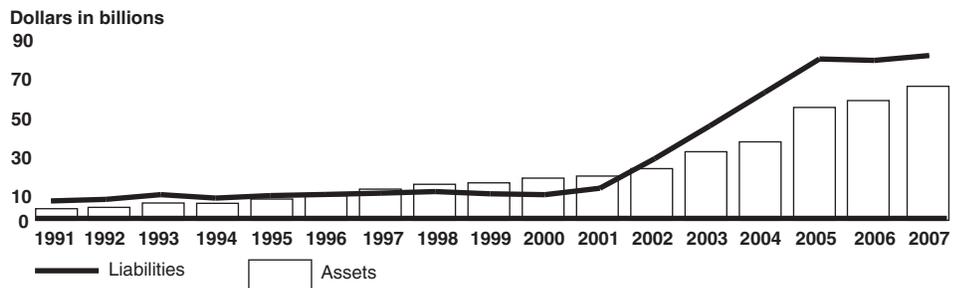
Improvements Needed to Address Financial and Management Challenges

What GAO Found

PBGC administers the current or future pension benefits for a growing number of participants of plans that have been taken over by the agency—from 500,000 in fiscal year 2000 to 1.3 million participants in fiscal year 2007. PBGC is financed by insurance premiums set by Congress and paid by sponsors of defined benefit (DB) plans, investment income, assets from pension plans trusted by PBGC, and recoveries from the companies formerly responsible for those trusted plans; PBGC receives no funds from general revenues. The treatment of PBGC in the federal budget is complicated by the use of two accounts—an on-budget revolving fund and a non-budgetary trust fund. Ultimately this budget treatment can be confusing—especially in the short-term—as on-budget gains may be offset by long-term liabilities that are not reported to on-budget accounts.

PBGC's single-employer program faces financial challenges from a history of weak plan funding rules that left it susceptible to claims from sponsors of large, severely underfunded pension plans. PBGC had seen recent improvements to its net financial position due to generally better economic conditions and from statutory changes that raised premiums and took measures designed to strengthen plan funding and PBGC guarantees. However, certain improvements have only just begun phasing-in and the changes did not completely address a number of the risks that PBGC faces going forward. Further, PBGC just began implementing a new investment policy that, while offering the potential for higher returns, also adds significant variability and risk to the assets it manages. Also, changing economic conditions could further expose PBGC to future claims.

PBGC Assets and Liabilities, Fiscal Year 1991 to 2007



Source: GAO's analysis of PBGC annual report data.

Improvements are needed to PBGC's governance structure and to its strategic approach to program management. PBGC's three member board of directors is limited in its ability to provide policy direction and oversight. PBGC may also be exposed to challenges as the board, its representatives, and the director will likely change with the upcoming presidential transition in January. In addition, PBGC lacks a strategic approach to its acquisition and human capital management needs. Three-quarters of PBGC's administrative budget is spent on contractors, yet PBGC's strategic planning generally does not recognize contracting as a major aspect of PBGC activities.