March 2009

DEFINED BENEFIT PENSIONS

Survey Results of the Nation’s Largest Private Defined Benefit Plan Sponsors
What GAO Found

GAO’s survey of the largest sponsors of DB pension plans revealed that respondents have made a number of revisions to their retirement benefit offerings over the last 10 years or so. Generally speaking, they have changed benefit formulas; converted to hybrid plans (such plans are legally DB plans, but they contain certain features that resemble DC plans); or frozen some of their plans. Eighty-one percent of responding sponsors reported that they modified the formula for computing benefits for one or more of their DB plans. Among all plans reported by respondents, 28 percent of these (or 47 of 169) plans were under a plan freeze—an amendment to the plan to limit some or all future pension accruals for some or all plan participants. The vast majority of respondents (90 percent, or 38 of 42 respondents) reported on their 401(k)-type DC plans. Regarding these DC plans, a majority of respondents reported either an increase or no change to the employer or employee contribution rates, with roughly equal responses to both categories.

About 67 percent of (or 28 of 42) responding firms plan to implement or have already implemented an automatic enrollment feature to one or more of their DC plans. With respect to health care offerings, all of the (42) responding firms offered health care to their current workers. Eighty percent (or 33 of 41 respondents) offered a retiree health care plan to at least some current workers, although 20 percent of (or 8 of 41) respondents reported that retiree health benefits were to be fully paid by retirees. Further, 46 percent of (or 19 of 41) responding firms reported that it is no longer offered to employees hired after a certain date.

At the time of the survey, most sponsors reported no plans to revise plan formulas, freeze or terminate plans, or convert to hybrid plans before 2012. When asked about the influence of recent legislation or changes to the rules for pension accounting and reporting, responding firms generally indicated these were not significant factors in their benefit decisions. Finally, a minority of sponsors said they would consider forming a new DB plan. Those sponsors that would consider forming a new plan might do so if there were reduced unpredictability or volatility in DB plan funding requirements and greater scope in accounting for DB plans on corporate balance sheets. The survey results suggest that the long-time stability of larger DB plans is now vulnerable to the broader trends of eroding retirement security. The current market turmoil appears likely to exacerbate this trend.
## Contents

### Letter

- From January 1997 to the Time of the Survey Response, Large Sponsors of DB Plans Have Revised Their Benefit Offerings in Various Ways  
  - 4
- At the Time of the Survey, Large DB Sponsors Anticipated Making Few Additional Changes to DB Plans  
  - 11
- Conclusions  
  - 14
- Agency Comments  
  - 14

### Appendix I

- Survey Results of the Nation’s Largest Private DB Plan Sponsors  
  - 16

### Appendix II

- Scope and Methodology  
  - 56

### Appendix III

- GAO Contact and Staff Acknowledgments  
  - 60
Defined Benefit Pensions

**Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB</td>
<td>defined benefit</td>
</tr>
<tr>
<td>DC</td>
<td>defined contribution</td>
</tr>
<tr>
<td>CUSIP</td>
<td>Committee on Uniform Securities Identification Procedures</td>
</tr>
<tr>
<td>ERISA</td>
<td>Employee Retirement Income Security Act of 1974</td>
</tr>
<tr>
<td>EIN</td>
<td>Employee Identification Number</td>
</tr>
<tr>
<td>FAS</td>
<td>Financial Accounting Standard</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>HRA</td>
<td>health reimbursement arrangement</td>
</tr>
<tr>
<td>HSA</td>
<td>health savings account</td>
</tr>
<tr>
<td>MMA</td>
<td>Medicare Prescription Drug, Improvement, and Modernization Act of 2003</td>
</tr>
<tr>
<td>PBGC</td>
<td>Pension Benefit Guaranty Corporation</td>
</tr>
<tr>
<td>PPA</td>
<td>Pension Protection Act of 2006</td>
</tr>
</tbody>
</table>

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.
March 30, 2009

The Honorable Charles E. Schumer
Vice Chairman
Joint Economic Committee
United States Senate

The Honorable Robert P. Casey, Jr.
United States Senate

The number of private defined-benefit (DB) pension plans, an important source of retirement income for millions of Americans, has declined substantially over the past two decades.¹ For example, about 92,000 single-employer DB plans existed in 1990 compared to just under 29,000 single-employer plans today. At the same time, the number of defined-contribution (DC) pension plans, such as 401(k)-type plans, has grown dramatically and resulted in a shift from DB plans to DC plans. For example, as of 2006, the Department of Labor estimates that there are 2.3 participants in a single-employer DC plan for each participant in a single-employer DB plan. One consequence of this shift from DB to DC plans is a shift of risk and responsibility to individual employees and away from the plan sponsors. In contrast to this overall trend, more large DB plans, or plans with more than 5,000 participants, exist today than did in 1990.² Despite the relative resilience of these large plans, there is widespread concern that sponsors of these plans have frozen or otherwise modified plan benefits.³ Additionally, over the last few years, these plan sponsors have had to deal with a very dynamic environment for pensions—especially with respect to pension legislation, changes to pension-related accounting rules, and a now rapidly worsening financial environment.

¹Employers may sponsor defined benefit (DB) or defined contribution (DC) plans for their employees. DB plans promise to provide a benefit that is generally based on an employee’s salary and years of service. 29 U.S.C. § 1002(35). DB plans use a formula to determine the ultimate pension benefit participants are entitled to receive. Under a DC plan, such as a 401(k) plan, employees have individual accounts to which the employee, employer, or both make contributions, and benefits are based on contributions, along with investment returns (gains and losses) on the accounts. 29 U.S.C. § 1002(34).


Employers have also been wrestling with higher health care costs and making a number of changes to health benefit offerings. For example, many employers that offer health benefits have required workers to pay a higher share of out-of-pocket costs, and some have recently introduced consumer-directed health plans, which trade lower premiums for significantly higher deductibles. Similar to coverage for active workers, an increasing share of retiree health benefits costs is being shifted to retirees and many employers have terminated benefits for future retirees—a trend that experts believe will continue.

Plan sponsors have also had to react to changes in the legislation governing plan funding and sponsorship and in accounting rules determining how pension assets and liabilities should be publicly reported. The current financial market turmoil has also led to additional stress on many plan sponsors. For example, a benefit consulting group recently estimated that the recent stock downturn has left DB pension plans at the nation’s largest companies underfunded by $409 billion—erasing an estimated $60 billion pension surplus at year-end 2007. On average, these large firms’ pension assets were only able to cover 75 percent of their obligations, down from the estimated 104 percent a year prior.

To better understand what has happened in the last decade or so, and what may happen in the future to pension plans as indicated by the actions of large DB sponsors, you asked us to address

(1) what changes employers have made to their pension and benefit offerings, including to their DC plans and health offerings, over the last 10 years or so, and

(2) what changes employers might make with respect to their pensions in the future, and how these changes might be influenced by changes in pension law and other factors.

The most common tax-advantaged savings arrangements that enrollees can use to pay for a portion of their health expenses are health reimbursement arrangements (HRA) or health savings accounts (HSA). These accounts allow funds to accrue over time. HRA accounts are owned by the employer, and only the employer may contribute to them. HSAs are owned by the enrollee and, therefore, are portable when workers change jobs. Both employers and enrollees can make contributions to HSAs. See GAO, Employer Sponsored Health and Retirement Benefits: Efforts to Control Employer Costs and the Implication for Workers, GAO-07-355 (Washington, D.C.: Mar. 30, 2007).
To determine the status of sponsors’ current benefit offerings, as well as possible prospective changes to pension offerings in the context of the current legal and regulatory environment, we developed, pretested, and administered an original survey of large DB plan sponsors. Additionally we analyzed and reviewed other employer studies and reviewed related literature. Appendix I contains revised slides that update the preliminary briefing information that we provided to your staff, as well as to officials from the Pension Benefit Guaranty Corporation (PBGC), the Department of Labor, and the Department of the Treasury in February 2009.

To achieve our survey objectives, we developed and pretested a questionnaire that we sent to the largest DB pension sponsors from PBGC’s 2004 Form 5500 Research Database. We further limited our study population to those sponsors that were also listed on either the Fortune 500 or Global 500 lists. We administered the survey to the 94 largest sponsors (by total participants in all sponsored plans) for which we were able to obtain information for the firm representative who would be most knowledgeable on pension and benefits issues. While 94 firms we identified for the survey do not represent a statistically generalizable sample of the roughly 23,500 total DB plan sponsors we identified in the Form 5500 Research Database, we estimate that these 94 sponsors represented 50 percent of the total liabilities and 39 percent of the total participants (active, retired, and separated-vested) in the PBGC insured single-employer DB system as of 2004. Given their relative significance, the 94 sponsors, by themselves, represent an important share of the DB system. Among the 44 plan sponsors that ultimately responded to the survey, we estimate that these sponsors represent 25 percent of the total liabilities and 19 percent in the single-employer DB system as of 2004 (see app. I, slide 5). Further, the responding sponsors represented a diversity of industries such as manufacturing; information; finance or insurance; and other various industries (see app. I, slide 7). Additionally, responding firms reported employing, on average, 75,000 employees in their U.S. operations in 2006.

The survey was administered as a Web-based survey that was available for access from December 17, 2007, to October 31, 2008. The vast majority of respondents completed the survey at least a few months prior to the recent financial downturn. Our analysis is unlikely to capture any related trends.
We initiated our audit work in April 2006. We issued results from our survey regarding frozen plans in July 2008. We completed our audit work for this report in March 2009 in accordance with all sections of GAO’s Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

See appendix II for a more detailed discussion about our methodology.

Our survey of the largest sponsors of DB pension plans reveals that they have made a number of revisions to their benefit offerings over approximately the last 10 years or so. Generally, respondents reported that they revised benefit formulas, converted some plans to hybrid plans (such as cash balance plans), or froze some of their plans. For example, 81 percent of responding sponsors reported that they modified the formulas of one or more of their DB plans.

Respondents were asked to report changes for plans or benefits that covered only nonbargaining employees, as well as to report on plans or benefits that covered bargaining unit employees. Fifty-eight percent of respondents who reported on plans for collective-bargaining employees

---

5We previously used a portion of this survey to analyze frozen plan tendencies, which used a stratified random probability sample of 471 DB pension sponsors from PBGC’s 2004 Form 5500 Research Database. See GAO-08-817.

6Cash balance plans are referred to as hybrid plans because, legally, they are DB plans but contain certain features that resemble DC plans. Similar to traditional DB plans, cash balance plans use a formula to determine pension benefits. However, unlike traditional final average pay plans that pay retirement benefits on the basis of an annuity amount calculated using years of service and earnings, cash balance plans express benefits as a hypothetical individual account balance that is based on pay credits (percentage of salary or compensation) and interest credits, rather than an annuity.

7Or 34 of 42 respondents that answered this question for either their plans covering nonbargaining employees only or their plans covering collectively bargained employees. All results in this report are unweighted. For example, results reported on a respondent basis are not additionally weighted by another factor such as plan liabilities or the number of participants in the responding sponsors’ plans.

8Or 14 of 24 respondents that answered the question for their plans covering collectively collective-bargaining employees.
indicated they had generally increased the generosity of their DB plan formulas between January 1997 and the time of their response (see app. I, slide 12). In contrast, 48 percent of respondents reporting on plans for their nonbargaining employees had generally decreased the generosity of their DB plan formulas since 1997. “Unpredictability or volatility of DB plan funding requirements” was the key reason cited for having changed the benefit formulas of plans covering nonbargaining employees (see app. I, slide 14). “Global or domestic competitive pressures” in their industry was the key reason cited for the changes to the plans covering collectively bargained employees (see app. I, slide 13). With regard to plans for bargaining employees, however, a number of the sponsors who offered reasons for changes to bargaining unit plans also volunteered an additional reason for having modified their plans covering bargaining employees. Specifically, these sponsors wrote that inflation or a cost-of-living adjustment was a key reason for their increase to the formula. This suggests that such plans were flat-benefit plans that may have a benefit structure that was increased annually as part of a bargaining agreement.

Meanwhile, sponsors were far more likely to report that they had converted a DB plan covering nonbargaining unit employees to a hybrid plan design than to have converted DB plans covering collectively

9 Or 19 of 40 respondents that answered the question for their plans covering nonbargaining employees only.

10 Respondents may be responding for both questions relating to plans covering nonbargaining unit employees only and questions relating to plans covering bargaining unit employees. For the question relating to DB formula changes, 24 respondents answered both questions.

11 This reason was most common, both among those reporting a change and among only those respondents reporting a formula decrease.

12 See appendix II for an explanation of the difference between collectively bargained plans and collectively bargained employees.

13 A flat-benefit plan uses a formula multiplying a beneficiary’s months of service by a predetermined, flat, monthly rate. This contrasts with the more typical unit credit plan, which typically uses a formula multiplying a beneficiary’s years of service by a percentage of his or her salary. Flat-benefit plans are more common in collectively bargained plans where the range of monthly wages between employees is comparatively small. Because, typically, an employee’s wages often increase over time, flat-benefit plans are amended, usually in conjunction with a new collective-bargaining agreement, by raising the monthly rate. As such, a cost-of-living adjustment for an employee with a pension using a flat-benefit formula may be thought of as analogous to a wage increases that may be witnessed by an employee with a pension using a unit credit formula.
bargained employees. For example, 52 percent\textsuperscript{14} of respondents who reported on plans for nonbargaining unit employees had converted one or more of their traditional plans to a cash balance or other hybrid arrangement (see app. I, slide 15). Many cited “trends in employee demographics” as the top reason for doing so (see app. I, slide 16). Among respondents who answered the cash balance conversion question for their collectively bargained plans, 21 percent\textsuperscript{15} reported converting one or more of their traditional plans to a cash balance plan.

Regarding plan freezes, 62 percent\textsuperscript{16} of the responding firms reported a freeze, or a plan amendment to limit some or all future pension accruals for some or all plan participants, for one or more of their plans (see app. I, slide 18). Looking at the respondent’s plans in total, 8 percent of the plans\textsuperscript{17} were described as hard frozen, meaning that all current employees who participate in the plan receive no additional benefit accruals after the effective date of the freeze, and that employees hired after the freeze are ineligible to participate in the plan. Twenty percent\textsuperscript{18} of respondents’ plans were described as being under a soft freeze, partial freeze, or “other” freeze.\textsuperscript{19} Although not statistically generalizable, the prevalence of freezes among the large sponsor plans in this survey is generally consistent with the prevalence of plan freezes found among large sponsors through a previous GAO survey that was statistically representative.\textsuperscript{20}

\textsuperscript{14}Or 21 of 40 respondents that answered the question for their plans covering non-bargaining employees only.

\textsuperscript{15}Or 5 of 24 respondents that answered the question for their plans covering collective-bargaining employees.

\textsuperscript{16}Or 26 of 42 respondents that answered the question.

\textsuperscript{17}Or 14 plans as hard frozen, among the 169 total plans reported by 42 respondents.

\textsuperscript{18}Or 33 plans as soft, partial, or other freeze, among the 169 total plans reported by 42 respondents.

\textsuperscript{19}A soft freeze is a freeze that limits future benefit accruals based on a component of the benefit accrual formula (that is, the service or salary component), and at a minimum, closes the plan to new participants. A partial freeze is a freeze that closes the plan to new entrants and, for only a subset of active participants, the plan’s prospective benefit formula is changed to limit or cease future benefit accruals.

\textsuperscript{20}See GAO 08-817. Many of the large sponsors in the GAO Survey of Large Defined Benefit Sponsors were included as a subset of sponsors in the Survey of Plan Freezes.
The vast majority of respondents (90 percent) to our most recent survey also reported on their 401(k)-type DC plans. At the time of this survey, very few respondents reported having reduced employer or employee contribution rates for these plans. The vast majority reported either an increase or no change to the employer or employee contribution rates, with generally as many reporting increases to contributions as reporting no change (see app. I, slide 21). The differences reported in contributions by bargaining status of the covered employees were not pronounced. Many (67 percent) of responding firms plan to implement or have already implemented an automatic enrollment feature to one or more of their DC plans.

According to an analysis by the Congressional Research Service, many DC plans require that workers voluntarily enroll and elect contribution levels, but a growing number of DC plans automatically enroll workers. Additionally, certain DC plans with an automatic enrollment feature may gradually escalate the amount of the workers’ contributions on a recurring basis. However, the Pension Protection Act of 2006 (PPA) provided incentives to initiate automatic enrollment for those plan sponsors that may not have already adopted an automatic enrollment feature. Seventy-two percent of respondents reported that they were using or planning to use automatic enrollment for their 401(k) plans covering nonbargaining

\[^{21}\] Or 38 of 42 respondents that answered 401(k)-related questions for either their plans covering nonbargaining employees only or their plans covering collectively bargained employees.

\[^{22}\] Or 28 of 42 respondents that answered the automatic enrollment question for either their plans covering only nonbargaining employees or their plans covering collectively bargained employees.

\[^{23}\] See Congressional Research Service, Automatic Enrollment in 401(k) Plans, RS21954 (Washington, D.C., Jan. 16, 2007). The PPA amended the Employee Retirement Income Security Act of 1974 (ERISA) to provide that under default investment arrangements that provide participants with required notice, employers and other plan fiduciaries will not be held liable for losses to the same extent as if a participant had exercised control of the investment. PPA § 624, 120 Stat. 980. The law also provided that automatic contribution arrangements that provide automatic deferral of pay, matching or nonelective contributions, and notice to employees will be deemed to meet the nondiscrimination requirements of the Internal Revenue Code. PPA §§ 902(a), 120 Stat. 1033-35. It also provided that plans consisting solely of contributions made through automatic enrollment will not be considered top-heavy plans. PPA § 902(c), 120 Stat. 1036.

\[^{24}\] Or 28 of 39 respondents that answered the question for their plans covering non-bargaining employees only.
employees, while 46 percent\textsuperscript{25} indicated that they were currently doing so or planning to do so for their plans covering collective-bargaining employees (see app. I, slide 22). The difference in automatic enrollment adoption by bargaining status may be due to the fact that nonbargaining employees may have greater dependence on DC benefits. That is, a few sponsors noted they currently automatically enroll employees who may no longer receive a DB plan. Alternatively, automatic enrollment policies for plans covering collective-bargaining employees may not yet have been adopted, as that plan feature may be subject to later bargaining.

Health benefits are a large component of employer offered benefits. As changes to the employee benefits package may not be limited to pensions, we examined the provision of health benefits to active workers, as well as to current and future retirees. We asked firms to report selected nonwage compensation costs or postemployment benefit expenses for the year 2006 as a percentage of base pay. Averaging these costs among all those respondents reporting such costs, we found that health care comprised the single largest benefit cost. Active employee health plans and retiree health plans combined to represent 15 percent of base pay\textsuperscript{26} (see app. I, slide 24). DB and DC pension costs were also significant, representing about 14 percent of base pay.\textsuperscript{27} All of the respondents\textsuperscript{28} reporting on health benefits offered a health care plan to active employees and contributed to at least a portion of the cost. Additionally, all of these respondents provided health benefits to some current retirees, and nearly all were providing health benefits to retirees under the age of 65 and to retirees aged 65 and older. Eighty percent\textsuperscript{29} of respondents offered retiree health benefits to at least some future retirees (current employees who could eventually become eligible for retiree benefits), although 20 percent\textsuperscript{30} of respondents offered

\textsuperscript{25}Or 11 of 24 respondents that answered the question for their plans covering collective-bargaining employees.

\textsuperscript{26}Twenty-five respondents reported their firm’s percent of base pay devoted to active employee health plans, and 25 respondents reported their firm’s percent of base pay devoted to retiree health plans.

\textsuperscript{27}Twenty-five respondents reported their firm’s percent of base pay devoted to DB plans, and 25 respondents reported their firm’s percent of base pay devoted to DC plans.

\textsuperscript{28}Or 42 of the 42 respondents that answered the questions.

\textsuperscript{29}Or 33 of the 41 respondents that offered a retiree health benefit to at least some current employees.

\textsuperscript{30}Or 8 of the 41 respondents that offered a retiree health benefit to at least some current employees.
retiree health benefits that were fully paid by the retiree.\textsuperscript{31} Further, it appears that, for new employees among the firms in our survey, a retiree health benefit may be an increasingly unlikely offering in the future, as 46 percent\textsuperscript{32} of responding firms reported that retiree health care was no longer to be offered to employees hired after a certain date (see app. I, slide 25).

We asked respondents to report on how an employer’s share of providing retiree health benefits had changed over the last 10 years or so for current retirees. Results among respondents generally did not vary by the bargaining status of the covered employees (app. I, slide 27). However, 27 percent\textsuperscript{33} of respondents reporting on their retiree health benefits for plans covering nonbargaining retirees reported increasing an employer’s share of costs, while only 13 percent\textsuperscript{34} of respondents reporting on their retiree health benefits for retirees from collective-bargaining units indicated such an increase. Among those respondents with health benefits covering nonbargained retirees, they listed “large increases in the cost of health insurance coverage for retirees” as a major reason for increasing an employer’s share—not surprisingly. This top reason was the same for all of these respondents, as well as just those respondents reporting a decrease in the cost of an employer’s share.\textsuperscript{35} Additionally, a number of respondents who mentioned “other” reasons for the decrease in costs for employers cited the implementation of predefined cost caps.\textsuperscript{36}

\textsuperscript{31}These figures are not necessarily mutually exclusive. The very same respondents could answer multiple questions about features of their current retiree health offering or offerings.

\textsuperscript{32}Or 19 of the 41 respondents that offered a retiree health benefit to at least some current employees.

\textsuperscript{33}Or 11 of 40 respondents that answered the question for their plans covering nonbargaining employees only.

\textsuperscript{34}Or 3 of 23 respondents that answered the question for their plans covering collective-bargaining employees.

\textsuperscript{35}We do not report selected reasons for respondents reporting for their collectively bargained employees, as the response rate for the question was not robust.

\textsuperscript{36}A cost cap is a limitation placed on an employer’s share of costs. A few firms specifically cited Financial Accounting Standard (FAS) 106 as the impetus for the cap. FAS 106 outlines accounting practices for postretirement benefits other than pensions, which includes health plans.
Our survey also asked respondents to report on their changes to retiree health offerings for future retirees or current workers who may eventually qualify for postretirement health benefits. As noted earlier, 46 percent of respondents reported they currently offered no retiree health benefits to active employees (i.e., current workers) hired after a certain date. Reporting on changes for the last decade, 54 percent\(^{37}\) of respondents describing their health plans for nonbargaining future retirees indicated that they had decreased or eliminated the firm’s share of the cost of providing health benefits (see app. I, slide 30).\(^{38}\) A smaller percentage (41 percent)\(^{39}\) of respondents reporting on their health benefits for collectively bargained future retirees indicated a decrease or elimination of benefits. The need to “match or maintain parity with competitor’s benefits package” was the key reason for making the retiree health benefit change for future retirees among respondents reporting on their collective-bargaining employees (app. I, slide 32).

We asked respondents to report their total, future liability (i.e., present value in dollars) for retiree health as of 2004.\(^{40}\) As of the end of the 2004 plan year, 29 respondents reported a total retiree health liability of $68 billion. The retiree health liability reported by our survey respondents represents 40 percent of the $174 billion in DB liabilities that we estimate for these respondents’ DB plans as of 2004. According to our estimates, the DB liabilities for respondents reporting a retiree health liability were

\(^{37}\) Or 21 of 39 respondents that answered the question for their plans covering nonbargaining employees only.

\(^{38}\) These respondents indicated that “large cost increases in health insurance for retirees” and “large cost increases in health insurance for active employees” were the major reasons for the change to benefits (app. I, slide 31). Interestingly, these reasons were ranked as top reasons for respondents that specifically reported an increase in an employer’s share of the cost, as well as those that specifically reported a decrease.

\(^{39}\) Or 9 of 22 respondents that answered the question for their plans covering collective-bargaining employees.

\(^{40}\) We asked for this somewhat older information for two reasons: (1) we used 2004 Form 5500 information to construct the survey sample, and we could use this information to compare the reported retiree health liabilities to the DB liabilities of the responding plan sponsors; and (2) changes occurred with respect to the accounting treatment of health care liabilities with the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Pub. L. No. 108-173, 117 Stat. 2006), which could potentially make consistent comparisons of liabilities in later years difficult. For more information on MMA and its effect on accounting, see GAO, Retiree Health Benefits: Options for Employment-Based Prescription Drug Benefits under the Medicare Modernization Act, GAO-05-205 (Washington, D.C.: Feb. 5, 2005).
supported with $180 billion in assets as of 2004. We did not ask respondents about the assets underlying the reported $68 billion in retiree health liabilities. Nevertheless, these liabilities are unlikely to have much in the way of prefunding or supporting assets, due in large part to certain tax consequences.\footnote{The tax treatment of such funding is extremely unfavorable, especially when compared to the treatment accorded the funding of pensions. Contributions in excess of those needed for retiree health benefits currently payable are not deductible from a corporation’s income for tax purposes. Further, to the extent that excess funds are contributed, any investment earnings on those accumulations are considered to be income to the plan sponsor. On the other hand, when the health benefits are paid, they become an expense of the plan sponsor. This is exactly the reverse of the treatment of pensions. For pensions, the contributions to tax-qualified plans are, within limits, an ordinary business expense and, hence, are deductible from the sponsor’s income; investment earnings on the accumulations are deferred; and benefit payments do not reduce the sponsor’s income but are considered income to the recipient.} Although we did not ask sponsors about the relative sustainability of retiree health plans given the possible difference in the funding of these plans relative to DB plans, we did ask respondents to report the importance of offering a retiree health plan for purposes of firm recruitment and retention. Specifically, we asked about the importance of making a retiree health plan available relative to making a DB or DC pension plan available. Only a few respondents reported that offering DB or DC plans was less (or much less) important than offering a retiree health plan.

Responding before October 2008—before the increasingly severe downturns in the national economy—most survey respondents reported they had no plan to revise benefit formulas or freeze or terminate plans, or had any intention to convert to hybrid plans before 2012. Survey respondents were asked to consider how their firms might change specific employee benefit actions between 2007 and 2012 for all employees. The specific benefit actions they were asked about were a change in the formula for calculating the rates of benefit accrual provided by their DB plan, a freeze of at least one DB plan, the conversion of traditional DB plans to cash balance or other hybrid designs, and the termination of at least one DB plan. For each possibility, between 60 percent and 80
percent\textsuperscript{42} of respondents said their firm was not planning to make the prospective change (see app I, slide 34).

When asked about how much they had been or were likely to be influenced by recent legislation or account rule changes, such as PPA or the adoption of Financial Accounting Standards Board (FASB) requirements to fully recognize obligations for postretirement plans in financial statements, responding firms generally indicated these were not significant factors in their decisions on benefit offerings. Despite these legislative and regulatory changes to the pension environment, most survey respondents indicated that it was unlikely or very unlikely that their firms would use assets from DB plans to fund qualified health plans; increase their employer match for DC plans; terminate at least one DB plan; amend at least one DB plan to change (either increase or decrease) rates of future benefit accruals; convert a DB plan to a cash balance or hybrid design plan, or replace a DB plan with a 401(k)-style DC plan.

Additionally, most respondents indicated “no role” when asked whether PPA, FASB, or pension law and regulation prior to PPA had been a factor in their decision (see app 1, slide 35). Though the majority of these responses indicated a trend of limited action related to PPA and FASB, it is interesting to note that, among the minority of firms that reported they were likely to freeze at least one DB plan for new participants only, most indicated that PPA played a role in this decision.\textsuperscript{43} Similarly, while only a few firms indicated that it was likely they would replace a DB plan with a 401(k)-style DC plan, most of these firms also indicated that both PPA and FASB played a role in that decision.\textsuperscript{44}

There were two prospective changes that a significant number of respondents believed would be likely or very likely implemented in the

\textsuperscript{42}More than 60 percent (or 27 of 42) of respondents planned no change to formula for calculating the rates of benefit accrual provided by DB plan; more than 60 percent (or 27 of 42) of respondents believed their firm will probably not or definitely not freeze at least one DB plan; 80 percent (or 34 of 42) of respondents believed their firm will probably not or definitely not convert DB plans to cash balance or other hybrid plans; and 79 percent (or 33 of 42) of respondents believed their firm will probably not or definitely not terminate DB plans.

\textsuperscript{43}Of the 11 firms that indicated a freeze for new participants was likely, 8 firms said that PPA played a role in the decision—4 of which selected “major role.”

\textsuperscript{44}Of the 5 firms that indicated replacing a DB plan with a 401(k)-style DC plan was likely, 4 indicated that both PPA and FASB played a role—2 of which selected “major role” for each.
future. Fifty percent\textsuperscript{45} of respondents indicated that adding or expanding automatic enrollment features to 401(k)-type DC plans was likely or very likely, and 43 percent\textsuperscript{46} indicated that PPA played a major role in this decision.\textsuperscript{47} This is not surprising, as PPA includes provisions aimed at encouraging automatic enrollment and was expected to increase the use of this feature. Forty-five percent\textsuperscript{48} of respondents indicated that changing the investment policy for at least one DB plan to increase the portion of the plan’s portfolio invested in fixed income assets was likely or very likely—with 21 percent\textsuperscript{49} indicating that PPA and 29 percent\textsuperscript{50} indicating that FASB played a major or moderate role in this decision\textsuperscript{51} (see app 1, slide 36). Our survey did not ask about the timing of this portfolio change, so we cannot determine the extent of any reallocation that may have occurred prior to the decline in the financial markets in the last quarter of 2008.

Finally, responding sponsors did not appear to be optimistic about the future of the DB system, as the majority stated there were no conditions under which they would consider forming a new DB plan. For the 26 percent\textsuperscript{52} of respondents that said they would consider forming a new DB plan, some indicated they could be induced by such changes as a greater scope in accounting for DB plans on corporate balance sheets and reduced unpredictability or volatility of plan funding requirements (see app I, slides 43).

\textsuperscript{45}Or 21 of 42 respondents that answered this question for their plans covering nonbargaining employees and/or their plans covering collectively bargained employees.

\textsuperscript{46}Or 18 of 42 respondents that answered this question for their plans covering nonbargaining employees and/or their plans covering collectively bargained employees.

\textsuperscript{47}The role of PPA is more pronounced among the 50 percent that indicated this change was likely; of these, 71 percent (15 out of 21) indicated that PPA played a “major role.”

\textsuperscript{48}Or 19 of 42 respondents that answered this question for their plans covering nonbargaining employees and/or their plans covering collectively bargained employees.

\textsuperscript{49}Or 9 of 42 respondents that answered this question for their plans covering nonbargaining employees and/or their plans covering collectively bargained employees.

\textsuperscript{50}Or 12 of 42 respondents that answered this question for their plans covering nonbargaining employees and/or their plans covering collectively bargained employees.

\textsuperscript{51}The role of PPA and FASB is more pronounced among the 45 percent of respondents that indicated this change was likely; of these, 47 percent (9 out of 19) indicated PPA played a role, and 63 percent (12 out of 19) indicated FASB played a role.

\textsuperscript{52}Or 11 of 42 respondents that answered this question for their plans covering nonbargaining employees and/or their plans covering collectively bargained employees.
38). Conditions less likely to cause respondents to consider a new DB plan included increased regulatory requirements of DC plans and reduced PBGC premiums (see app I, slide 39).

Conclusions

Until recently, DB pension plans administered by large sponsors appeared to have largely avoided the general decline evident elsewhere in the system since the 1980s. Their relative stability has been important, as these plans represent retirement income for more than three-quarters of all participants in single-employer plans. Today, these large plans no longer appear immune to the broader trends that are eroding retirement security. While few plans have been terminated, survey results suggest that modifications in benefit formulas and plan freezes are now common among these large sponsors. This trend is most pronounced among nonbargained plans but is also apparent among bargained plans. Yet, this survey was conducted before the current economic downturn, with its accompanying market turmoil. The fall in asset values and the ensuing challenge to fund these plans places even greater stress on them today.

Meanwhile, the survey findings, while predating the latest economic news, add to the mounting evidence of increasing weaknesses throughout the existing private pension system that include low contribution rates for DC plans, high account fees that eat into returns, and market losses that significantly erode the account balances of those workers near retirement. Moreover, the entire pension system still only covers about 50 percent of the workforce, and coverage rates are very modest for low-wage workers. Given these serious weaknesses in the current tax-qualified system, it may be time for policymakers to consider alternative models for retirement security.

Agency Comments

We provided a draft of this report to the Department of Labor, the Department of the Treasury, and PBGC. The Department of the Treasury and PBGC provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Secretary of Labor, the Secretary of the Treasury, and the Director of the PBGC, appropriate congressional committees, and other interested parties. In addition, the report will be available at no charge on GAO’s Web site at http://www.gao.gov.
If you have or your staffs any questions about this report, please contact me at (202) 512-7215 or bovbjergb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions are listed in appendix III.

Barbara D. Bovbjerg, Director
Education, Workforce, and Income Security Issues
Appendix I: Survey Results of the Nation’s Largest Private DB Plan Sponsors
Survey Objectives

• Assess the impact of recent developments facing sponsors of the nation’s largest private sector DB plans:

1) What recent changes have employers made to their pension and benefit offerings?

2) What changes might employers make with respect to their pensions in the future, and how might these changes be influenced by changes in pension law and other factors?
Appendix I: Survey Results of the Nation’s Largest Private DB Plan Sponsors

GAO Survey of the Largest DB Sponsors: Overview of Survey and Topics

- The survey consisted of 105 questions and covered a broad range of areas including:
  - the status of current DB plans
  - the status of frozen plans (if any) and largest frozen plan (if applicable)
  - health care information (for active employees and retirees)
  - non-wage compensation targets and priorities
  - pension and other benefit practices/changes over the last ten years or so and reasons for those changes
    - these questions were separated into two sections: one for plans covering non-bargaining unit employees and one for plans covering bargaining units
  - prospective benefit plan changes and the influence of laws and accounting rules on those prospective changes
  - opinions about the possible formation of a new DB plan
Appendix I: Survey Results of the Nation’s Largest Private DB Plan Sponsors

GAO Survey of the Largest DB Sponsors: Sampling/Summary Statistics

- Target group - A selection sample of the largest 100 private sector sponsors of DB plans that were also listed on the Fortune 500 or Global 500
- Of the originally targeted 100 sponsors, we were able to obtain contact information—typically the firm’s Director of Benefits—for 94 sponsors
  - Sponsors received a web based survey administered from November 2007 to October 2008; the vast majority of respondents completed the survey prior to July 2008
- 44 of the 94 sponsors responded
- Responding firms often had multiple plans—a median of 2 plans and an average of about 4 plans
GAO Survey of the Largest DB Sponsors: Significance and Interpretation

- As a selection sample of the largest plans, results are not generalizable to all DB plan sponsors.
- However, the sample can serve as an important indicator of the health of the private DB system and the sample’s possible importance to the Pension Benefit Guaranty Corporation (PBGC).
- The 44 sponsoring firms that responded represent an estimated:
  - 25 percent (or $370 billion) of total DB system liabilities as of 2004
  - 19 percent (or 6 million) of the system’s DB participants (active, separated-vested, retired as of 2004)
Among the responding firms, the largest individual self-reported business line was manufacturing, with other key areas being finance and information. (Figure 1)

- These firms reported employing on average 75,000 employees in their U.S. operations in 2006.
Figure 1: Large DB Plan Sponsors Most Common In Manufacturing Industries

DB Plan sponsors’ major line of business

- Finance or Insurance
  N = 7

- Information
  N = 5
  Telecommunications, Other Communications

- Manufacturing
  N = 18

- Other Industries
  Retail Trade, Transportation
  N = 12

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
GAO Survey of the Largest DB Sponsors: Context

• The DB system has been in decline:
  • Long term decline in number of private DB plans and percentage of system participants who are active workers
  • Large net accumulated deficit ($11 billion) for Pension Benefit Guaranty Corporation (PBGC) which insures private DB plans
• Developments affecting DB plans and sponsors:
  • Pension Protection Act of 2006 and related legislation, which tightened funding rules and raised PBGC premiums
  • New accounting rules, such as FAS 158, which highlighted importance of plan underfunding on corporate balance sheets
  • Rising cost pressures from health insurance for active workers and retirees
GAO Survey of the Largest DB Sponsors: Context

- Survey conducted prior to:
  - Financial market turmoil of 2008
  - Detroit automakers, who have DB plans, seeking federal assistance
  - Rising unemployment
  - Recently legislated pension funding relief, the Worker, Retiree, and Employer Recovery Act of 2008
Overview: Survey Findings

• **Between 1997 and October 2008:**
  • Revisions to DB plan features (e.g. benefit formulas, plan freezes, hybrid plan conversions) were common, especially among sponsors’ non-bargained (NB) plans
  • Revisions to defined contribution (DC) plan features were most common among sponsors’ NB plans
    • Many respondents reported having already implemented or planning to implement auto-enrollment
  • Health insurance benefits to current retirees were still common, but 20 percent placed full costs on retirees; over 46 percent did not offer benefit to some future retirees, or employees hired after a certain date
  • Most DB plan sponsors planned few changes before 2012
Large DB Plan Sponsor Survey: Trends in DB Plan Sponsorship and Design

Between 1997 and October 2008:

- Collectively bargained (CB) plans were more likely to report a benefit formula improvement in generosity while NB plans were more likely to report a decline in benefit formula generosity (Figure 2).
  - For CB plans key reasons cited for changes were competitive economic pressures and employee demographics (Figure 3).
  - For NB plans key reasons cited for changes were funding unpredictability, competitive economic pressures and employee demographics (Figure 4).
- Respondents reported more conversions to hybrid designs among NB plans (Figure 5).
- Top reasons for non-bargaining unit conversions: employee demographics and unpredictable funding requirements (Figure 6).
Figure 2: Sponsors Reported DB Formula Changes as Generally More Generous for Plans that are CB

How defined benefit formulas changed from January 1, 1997

<table>
<thead>
<tr>
<th></th>
<th>N = 40 (NB Plans)</th>
<th>24 (CB Plans)</th>
<th>24 (both NB &amp; CB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formula changed to increase generosity</td>
<td>12</td>
<td>25</td>
<td>37</td>
</tr>
<tr>
<td>Formula did not change</td>
<td>37</td>
<td>17</td>
<td>48</td>
</tr>
<tr>
<td>Formula changed to decrease generosity</td>
<td>48</td>
<td>58</td>
<td>58</td>
</tr>
</tbody>
</table>

Percentage of sponsors
- Light gray: Respondents with plans covering CB employees
- Dark gray: Respondents with plans covering NB employees

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: Nearly 40 percent of respondents did not respond to questions regarding collectively bargained plans.
Figure 3: Reasons for Formula Changes Varied by Bargaining Status of the Plan: Plans Covering CB Employees

<table>
<thead>
<tr>
<th>Reason</th>
<th>Major Reason</th>
<th>Moderate, minor reason</th>
<th>Not a reason</th>
<th>No response, not checked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global/domestic competitive economic pressures in your industry</td>
<td>22</td>
<td>39</td>
<td>28</td>
<td>11</td>
</tr>
<tr>
<td>Demographics of bargaining unit (increasing average age)</td>
<td>11</td>
<td>50</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>401(k) or other defined contribution retirement plan benefits were increased as a tradeoff</td>
<td>5</td>
<td>11</td>
<td>67</td>
<td>17</td>
</tr>
<tr>
<td>Other benefits for new hires were increased as a tradeoff</td>
<td>78</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>401(k) or other defined contribution retirement plan benefits were decreased as a tradeoff</td>
<td>83</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health benefits for active employees were reduced as a tradeoff</td>
<td>83</td>
<td>17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a 'major reason,' while the bottom three reasons are listed in declining order of firms listing 'not a reason.' 33 percent of respondents selected Other as a Major Reason; 3 out of 6 respondents mention inflation or increased cost of living as the other reason.
Figure 4: Reasons for Formula Changes Vary by Bargaining Status of the Plan: Plans Covering NB Employees

Top Major Reasons and Not Reasons selected for defined benefit formula changes

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage of sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpredictability or volatility of DB plan funding requirements</td>
<td>Major reason: 25%</td>
</tr>
<tr>
<td>Global/domestic competitive economic pressures in your industry</td>
<td>Moderate, minor reason: 46%</td>
</tr>
<tr>
<td></td>
<td>Not a reason: 25%</td>
</tr>
<tr>
<td>Trends in employee demographics (toward an older/younger workforce)</td>
<td>Major reason: 21%</td>
</tr>
<tr>
<td></td>
<td>Moderate, minor reason: 42%</td>
</tr>
<tr>
<td></td>
<td>Not a reason: 33%</td>
</tr>
<tr>
<td>Pressure from shareholders to increase profitability</td>
<td>Major reason: 17%</td>
</tr>
<tr>
<td></td>
<td>Moderate, minor reason: 54%</td>
</tr>
<tr>
<td></td>
<td>Not a reason: 17%</td>
</tr>
<tr>
<td>To compensate for reduced effectiveness of defined benefit plans</td>
<td>Major reason: 13%</td>
</tr>
<tr>
<td>as an employee retention tool</td>
<td>Moderate, minor reason: 33%</td>
</tr>
<tr>
<td></td>
<td>Not a reason: 50%</td>
</tr>
<tr>
<td>To compensate for investment performance of DB plans</td>
<td>Major reason: 42%</td>
</tr>
<tr>
<td></td>
<td>Moderate, minor reason: 50%</td>
</tr>
<tr>
<td></td>
<td>Not a reason: 8%</td>
</tr>
<tr>
<td></td>
<td>No response, not checked</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three reasons are ranked in declining order of the percentage of firms listing a ‘major reason,’ while the bottom three reasons are listed in declining order of firms listing ‘not a reason.’ 17 percent of respondents selected Other as a ‘major reason;’ 3 out of 5 respondents mention mergers or acquisitions as the other reason.
Figure 5: Conversion to Hybrid/Cash Balance Plans

- Did not convert a traditional plan to a hybrid plan: 79 total cases, 48 respondents covering CB employees, 21 respondents covering NB employees.
- Converted a traditional plan to a hybrid plan: 52 total cases, 24 respondents covering CB employees, 24 respondents covering both CB & NB employees.

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
Figure 6: Reasons for Non-Bargaining Unit Conversions to Hybrid/Cash Balance plans

Top Major Reasons and Not Reasons selected for plan conversions

- Trends in employee demographics (toward an older/younger workforce): 24 major, 62 moderate, 10 not a reason
- Unpredictability or volatility of DB plan funding requirements: 10 major, 52 moderate, 33 not a reason
- Global/domestic competitive economic pressures in your industry: 10 major, 29 moderate, 43 not a reason
- Administrative or regulatory complexity involved in maintaining DB plans: 5 major, 24 moderate, 62 not a reason
- Pension Protection Act of 2006 clarified legal uncertainty: 5 major, 14 moderate, 62 not a reason
- Large increases in cost of health insurance coverage: 24 major, 62 moderate, 14 not a reason

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a 'major reason,' while the bottom three reasons are listed in declining order of firms listing 'not a reason.' 33 percent of respondents selected 'other' as a 'major reason.' In 'other' reasons listed by those respondents, 4 out of 9 listed merger or acquisition as the major reason for conversion.
Large DB Plan Sponsor Survey: Trends in DB Plan Sponsorship and Design—Freezes and Termination

- 62 percent (26 of 42) of respondents in the survey froze at least one plan; however, these larger sponsors were likely to report multiple plans.
- 28 percent of respondents plans were frozen (47 of a total of 169 plans); only 8 percent were under a hard freeze, or a type of plan freeze in which all future benefit accruals cease. (Figure 7)
  - the rate of plan freezes is generally consistent with rate found for a subset of larger sponsors using a statistically representative sample in previous report analyzing freeze data*.
  - prior report found larger sponsors were significantly less likely than smaller sponsors to have implemented a hard freeze.
- Plan terminations were extremely rare among large plans, with only a few occurring during the time the sample was selected and administered.

Figure 7: Freeze Patterns among Respondents and their Plans

Freezes by firm/sponsors (i.e. NOT by plan)
- Firms with no frozen plans: 38%
- Firms with one or more frozen plans: 62%

Freezes by all firm's plans
- Not frozen: 72%
- Hard frozen: 20%
- Soft/partial/other freeze: 8%

N = 42 (respondents); 169 (plans)

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
Trends in 401(k) Contributions among Large DB Plan Sponsors

- Most DB plan sponsors also offered a DC plan, typically a 401(k) plan.
- From 1997 to the time of survey response, most DB sponsors either increased or did not change employer contributions to 401(k) plans for their NB employees. (Figure 8)
  - Main reasons for change included redesigned matching formula as well as compensation adjustments to attract top employees.
- The vast majority of respondents reported that plans covering NB employees either increased or did not change employee contributions.
  - Main reasons among respondents reporting increased contributions included addition of automatic enrollment feature to one or more plans.
- 72 percent of large sponsors reported either using or planning to use auto enrollment for plans covering NB employees (Figure 9).
Trends in 401(k) Contributions among Large DB Plan Sponsors: Bargaining Unit Employees

- From 1997 to the time of survey response, most DB sponsors either increased or did not change employer contributions to 401(k) plans for their bargaining unit employees. (Figure 8)
  - No single reason stood out for this result.
  - Bargaining unit employees of most sponsors did not change employee contributions. (Figure 8)
  - 50 percent of large sponsors with plans covering CB employees reported either not using or not planning to use auto enrollment (Figure 9).
### Figure 8: Employer and Employee 401(k)
Contributions for Non Bargaining and Bargaining Unit Employees

Change in level of employee and employer contributions to 401(k) plans between January 1997 and submission of surveys

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Percentage of Sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer contributions (bargaining unit)</td>
<td>33 (Increased) 54 (Did not change) 4 (Decreased) 8 (No response)</td>
</tr>
<tr>
<td>Employee contributions (non-bargaining unit)</td>
<td>46 (Increased) 36 (Did not change) 10 (Decreased) 8 (No response)</td>
</tr>
<tr>
<td>Employer contributions (bargaining unit)</td>
<td>42 (Increased) 50 (Did not change) 4 (Decreased) 4 (No response)</td>
</tr>
<tr>
<td>Employee contributions (non-bargaining unit)</td>
<td>45 (Increased) 37 (Did not change) 15 (Decreased) 2 (No response)</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
Figure 9: Prevalence of 401(k) Auto-Enrollment Feature for Non Bargaining and Bargaining Unit Employees

Current and future use of auto enrollment

- Not Auto Enrolling, Not Planning to Auto Enroll: 28 (N = 39 (NB Plans), 24 (CB Plans), 24 (NB & CB))
- Planning to Auto Enroll: 18
- Currently Auto Enrolling: 25

Percentage of sponsors
- Respondents with plans covering CB employees
- Respondents with plans covering NB employees

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
Large DB Plan Sponsor Survey: Health Benefits for Active Employees and Retirees

- Health care was the single largest benefit as a percentage of base pay (Figure 10)
- All responding DB plan sponsors offered health insurance to active employees and contributed to the cost
- All responding DB plan sponsors offered health insurance to at least some current retirees—nearly all to both pre-age 65 and age 65-plus employees
  - 80 percent provided health insurance to at least some active employees who become eligible for the benefit upon retirement
  - 20 percent provided health insurance that was fully paid by the retired employee (Figure 11)
Figure 10: For Large DB Sponsors, Health Insurance for Active Employees Was the Largest Component of Non-wage Compensation

Average percentage of firms' current base pay devoted to non-wage compensation category in 2006

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active employee health plan(s)</td>
<td>10.8</td>
</tr>
<tr>
<td>Defined benefit retirement/pension plan</td>
<td>10.3</td>
</tr>
<tr>
<td>Pay for time not worked (vacation/sick leave, holidays)</td>
<td>8.6</td>
</tr>
<tr>
<td>Retiree health plan(s)</td>
<td>4.2</td>
</tr>
<tr>
<td>Defined contribution retirement/pension plan</td>
<td>4.1</td>
</tr>
<tr>
<td>Other benefits (short/long term life insurance, premium pay, disability insurance, etc.)</td>
<td>3.4</td>
</tr>
<tr>
<td>Other retirement/pension plan</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: Chart categories not mutually exclusive; N varies from 15-25 as respondents were not required to select a response to each category.
Figure 11: Provision of Health Benefits to Active Employees, Current or Future Retirees

Firms’ methods for providing retiree health benefits

- We continue to offer retiree health benefits to all or some employees and it is partially paid by the employer: 80
- Employees hired after a certain date are no longer offered retiree health benefits: 46
- We continue to offer retiree health benefits and it is all paid by the participant: 20
- Other: 12
- We continue to offer retiree health benefits to some or all active employees and it is all paid by the employer: 2
- Employees must retire before a certain date: 0

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: Chart categories not mutually exclusive.
*Responses in Other generally indicate varying benefits offered to different segments of the employee population.
Large DB Plan Sponsor Survey: Health Benefits for *Current* Retirees

- Compared to respondents reporting on their benefits covering CB employees, respondents with NB employees reported decrease in the employer’s share of the cost of providing health benefits to current retirees (Figure 12)
  - Main reasons were increases in cost of health insurance for retirees and for active employees (Figure 13)
- A plurality of respondents with CB employees reported no change in firm’s share of the cost of providing health benefits to current retirees
Figure 12: Changes in Share of Health Benefit Costs for Current Retirees by Non-bargaining Unit and Bargaining Unit Firms

Changes in employer share of health benefit costs

- Employer share of cost did not change: 30 respondents with plans covering CB employees, 39 respondents with plans covering NB employees
- Employer share of cost decreased: 35 respondents with plans covering CB employees, 35 respondents with plans covering NB employees
- Employer share of cost increased: 27 respondents with plans covering CB employees, 13 respondents with plans covering NB employees
- Employer did not offer benefit, no response: 9 respondents with plans covering CB employees, 7 respondents with plans covering NB employees
- Employer eliminated benefit: 4 respondents with plans covering CB employees, 0 respondents with plans covering NB employees

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
### Figure 13: Reasons for Changes in Non-Bargaining Unit Firms' Share of Health Benefit Costs for Current Retirees

Top Major Reasons and Not Reasons selected for changes in firms' share of health benefit costs

<table>
<thead>
<tr>
<th>Reason</th>
<th>Major Reason</th>
<th>Moderate, minor reason</th>
<th>Not a reason</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large increases in cost of health insurance coverage for retirees</td>
<td>72</td>
<td>24</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>Large increases in cost of health insurance coverage for active employees</td>
<td>44</td>
<td>44</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>Unwillingness/inability to completely shift costs to current retirees</td>
<td>32</td>
<td>20</td>
<td>40</td>
<td>4</td>
</tr>
<tr>
<td>Rapidly rising costs due to adverse demographic workforce projections</td>
<td>60</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Uncertainty surrounding the application of accounting rule changes for health insurance costs</td>
<td>64</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Maintain comparability with similar provisions in collective bargaining agreements</td>
<td>76</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a ‘major reason,’ while the bottom three reasons are listed in declining order of firms listing ‘not a reason.’ 24 percent of respondents selected Other as a Major Reason. 5 out of 8 respondents mentioned caps reached or FAS 106 caps reached as part of the reason.
Large DB Plan Sponsor Survey: Health Benefits for Future Retirees

- 46 percent of plan sponsors no longer offered retiree health benefits to active employees hired after a certain date.
- 54 percent decreased or eliminated the firm's share cost of providing health benefits for future retirees who were non-bargaining employees; (Figure 14)
  - Primary reasons cited were large cost increases in health insurance for both retirees and active employees (Figure 15)
- 41 percent of sponsors with bargaining unit employees reported decrease in or elimination of firm's share of health care costs for future retirees (Figure 14)
  - 26 percent reported no change
  - Primary reason cited was match/maintain parity with competitor’s benefits package (Figure 16)
Figure 14: Changes in Share of Health Benefit Costs for *Future* Retirees by Non-bargaining Unit and Bargaining Unit Firms

Changes in employer share of health benefit costs

<table>
<thead>
<tr>
<th></th>
<th>Non-bargaining Unit</th>
<th>Bargaining Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer share of cost decreased</td>
<td>32</td>
<td>51</td>
</tr>
<tr>
<td>Employer share of cost increased</td>
<td></td>
<td>27</td>
</tr>
<tr>
<td>Employer share of cost did not change</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Employer did not offer benefit, no response</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Employer eliminated benefit</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

N=39 (NB Plans)
22 (CB Plans)
22 (NB & CB)

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.
Figure 15: Reasons for Changes in Non-Bargaining Unit Firms' Share of Health Benefit Costs for *Future* Retirees

<table>
<thead>
<tr>
<th>Reason</th>
<th>Major reason</th>
<th>Moderate, minor reason</th>
<th>Not a reason</th>
<th>No response, not checked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large increases in cost of health insurance coverage for retirees</td>
<td>71</td>
<td></td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td>Large increases in cost of health insurance coverage for active employees</td>
<td>26</td>
<td></td>
<td>35</td>
<td>32</td>
</tr>
<tr>
<td>Match/maintain parity with competitor's benefits package</td>
<td>10</td>
<td></td>
<td>55</td>
<td>26</td>
</tr>
<tr>
<td>Uncertainty surrounding the application of accounting rule changes for health insurance costs</td>
<td>6</td>
<td></td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td>Rising costs of other benefits provided that are needed to recruit employees</td>
<td>6</td>
<td></td>
<td>29</td>
<td>61</td>
</tr>
<tr>
<td>Maintain comparability with provisions of collective bargaining agreements</td>
<td>3</td>
<td></td>
<td>77</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a ‘major reason,’ while the bottom three reasons are listed in declining order of firms listing ‘not a reason.’
**Figure 16: Reasons for Changes in Collective Bargaining Unit Firms' Share of Health Benefit Costs for Future Retirees**

Top Major Reasons and Not Reasons selected for changes in firms' share of health benefit costs

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage of Sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Match/maintain parity with competitor’s benefits package</td>
<td>47%</td>
</tr>
<tr>
<td>Large number of former bargaining unit members as retirees</td>
<td>53%</td>
</tr>
<tr>
<td>Demographics of bargaining unit (increasing average age)</td>
<td>53%</td>
</tr>
<tr>
<td>Defined benefit retirement plans were generally decreased as a tradeoff</td>
<td>93%</td>
</tr>
<tr>
<td>Employer share 401(k) or other defined contribution retirement plan benefits were decreased as a tradeoff</td>
<td>93%</td>
</tr>
<tr>
<td>Health benefits for active employees were reduced as tradeoff</td>
<td>93%</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a 'major reason,' while the bottom three reasons are listed in declining order of firms listing 'not a reason.' 40 percent of respondents selected Other as a Major Reason; within the Other reasons listed by these respondents, there were no consistent responses.
Retiree Health Care Represents a Significant Liability for DB Plan Sponsors

- As of the end of 2004, 29 DB plan sponsors reported a total liability for retiree health plan year was $68 billion.
  - This was about 18 percent of the $370 billion of total DB liabilities that we estimated for all respondents from the 2004 Form 5500.
  - If we include the liabilities of only those that reported a retiree health liability, then the retiree health represented 40 percent of their estimated DB liabilities ($174 billion; covered by $180 billion in assets).
- We chose 2004 because:
  - We used 2004 Form 5500 data to select the respondents; and
  - Changes occurred with respect to the accounting treatment of health care liabilities that made it difficult to ascertain those liabilities in later years.
Large DB Plan Sponsor Survey: Most Sponsors Reported Few Planned Changes Before 2012

- When sponsors were asked about prospective changes to benefit offerings, most plan sponsors reported no firm plans to revise benefit formulas, freeze or terminate plans, or convert hybrid plans before 2012:
  - More than 60 percent of respondents planned no change to formula for calculating the rates of benefit accrual provided by DB plan
  - More than 60 percent of respondents believed their firm will probably not or definitely not freeze at least one DB plan
  - 80 percent of respondents believed their firm will probably not or definitely not convert DB plans to cash balance or other hybrid plans
  - 79 percent of respondents believed their firm will probably not or definitely not terminate DB plans
Large DB Plan Sponsor Survey: Sponsors Expect Few Changes to Their Pension Plans

- When sponsors were asked about how the pension environment (i.e. laws, accounting rules, etc.) might influence future benefit offerings, a majority respondents believed it **unlikely or very unlikely** that firm would:
  - use assets from DB to fund qualified health plans
  - increase employer match for DC plans
  - terminate at least one DB plan
  - amend at least one DB plan to change (either increase or decrease) rates of future benefit accruals
  - convert DB plan to cash balance or hybrid plan
  - replace DB plan with 401(k)-style DC plan
- PPA, FASB played virtually no role in changes to retirement plans
Large DB Plan Sponsor Survey: Limited Changes to DB and DC plans in response to PPA, FASB, or other changes prior to passage of PPA

- 50 percent of sponsors believed adding or expanding automatic enrollment features to 401(k)-type DC plans was very likely or likely in the future
  - 43 percent of these said PPA played major role in this expansion
- 45 percent of respondents believed changing the investment policy for at least one DB plan to increase the portion of the plans’ portfolio invested in fixed income assets was very likely or likely
  - 21 percent said PPA played major/moderate role; 29 percent said FASB played major/moderate role
Large DB Plan Sponsor Survey: Conditions to Consider Forming New DB Plans

- Most sponsors reported no possible conditions that could make them definitely consider forming a new DB plan.
- 26 percent of sponsors reported that there were conditions under which they would have considered offering a new DB plan; the most common conditions selected were:
  - Provide sponsors with greater scope in accounting for DB plans on corporate balance sheets.
  - DB plans became more effective as an employee retention tool.
  - Reduced unpredictability or volatility in DB plan funding requirements (Figure 17).
### Figure 17: Among the 26 Percent of Respondents that Would Consider a New DB Plan, Conditions Under Which They Would Consider Doing So

<table>
<thead>
<tr>
<th>Possible Conditions</th>
<th>Percentage of sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide sponsors with greater scope in accounting for DB plans on corporate balance sheets</td>
<td>73/18/9</td>
</tr>
<tr>
<td>DB plans became more effective as an employee retention tool</td>
<td>64/18/9</td>
</tr>
<tr>
<td>Reduced unpredictability or volatility in DB plan funding requirements</td>
<td>64/18/9</td>
</tr>
<tr>
<td>DB plans became the standard for retirement benefits in the firms industry</td>
<td>64/18/9</td>
</tr>
<tr>
<td>Increase in tax deductibility of DB plans compared to DC plans</td>
<td>64/9/18/9</td>
</tr>
<tr>
<td>Reduced regulatory/administrative requirements for DB plans</td>
<td>55/18/18/9</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a 'major reason,' while the bottom three reasons are listed in declining order of firms listing 'not a reason.'
Figure 18: Conditions Under Which Firms Would Have Considered Offering Employees a New DB Plan (continued)

<table>
<thead>
<tr>
<th>Possible conditions</th>
<th>Percentage of sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB plans became more effective as an employee recruitment tool</td>
<td>55 18 18 9</td>
</tr>
<tr>
<td>Mitigation of constraints with respect to ERISA nondiscrimination or &quot;top-heavy&quot; rules</td>
<td>36 36 18 9</td>
</tr>
<tr>
<td>Increased costs of DC plans</td>
<td>27 64 9</td>
</tr>
<tr>
<td>DB plan was a consequence of collective bargaining negotiations</td>
<td>27 9 18 45</td>
</tr>
<tr>
<td>Reduced PBGC premiums</td>
<td>18 45 27 9</td>
</tr>
<tr>
<td>Increased regulatory requirements of DC plans</td>
<td>64 27 9</td>
</tr>
</tbody>
</table>

Source: GAO analysis of survey of sponsors of large defined benefit pension plans.

Note: The top three key reasons are ranked in declining order of the percentage of firms listing a ‘major reason,’ while the bottom three reasons are listed in declining order of firms listing ‘not a reason.’
Implications/Concluding Observations

• Stability of large sponsor plans now increasingly vulnerable to the broader decline of the DB system
  • Benefit formula revisions and plan freezes common among survey respondents, especially among NB plans, but among CB plans as well
  • Findings consistent with mounting evidence of challenges facing private sector retirement system
    • DC plans losses from current markets, low coverage participation rates high fees
    • Current market turmoil exacerbates these challenges
• Findings highlight need for examination of current system’s problems and the need to consider alternative models
Appendix II: Scope and Methodology

To achieve our objectives, we conducted a survey of sponsors of large defined-benefit (DB) pension plans. For the purposes of our study, we defined “sponsors” as the listed sponsor on the 2004 Form 5500 for the largest sponsored plan (by total participants). To identify all plans for a given sponsor, we matched plans through unique sponsor identifiers.

We constructed our population of DB plan sponsors from the 2004 Pension Benefit Guaranty Corporation’s (PBGC) Form 5500 Research Database by identifying unique sponsors listed in this database and aggregating plan-level data (for example, plan participants) for any plans associated with this sponsor. As a result of this process, we identified approximately 23,500 plan sponsors. We further limited these sponsors to the largest sponsors (by total participants in all sponsored plans) that also appeared on the Fortune 500 or Fortune Global 500 lists. We initially attempted to administer the survey to the first 100 plans that met these criteria, but ultimately, we were only able administer the survey to the 94 sponsoring firms for which we were able to obtain sufficient information for the firm’s benefits representative. While the 94 firms we identified for the survey are an extremely small subset of the approximately 23,500 total DB plan sponsors in the research database, we estimate that these 94 sponsors represented 50 percent of the total single-employer liabilities insured by PBGC and 39 percent of the total participants (active, retired, and separated-vested) in the single-employer DB system as of 2004.

The Web-based questionnaire was sent in December 2007, via e-mail, to the 94 sponsors of the largest DB pension plans (by total plan participants as of 2004) who were also part of the Fortune 500 or Global Fortune 500. This was preceded by an e-mail to notify respondents of the survey and to

---

1 At the time of sample selection we removed plans that terminated after 2004, which may have also included plans that reported a final filing or had merged into another plan.

2 These include the nine-digit employee identification number (EIN) found in the Form 5500, as well as the Committee on Uniform Securities Identification Procedures (CUSIP) number, which is contained in the PBGC Research Database. A CUSIP number identifies most North American securities, including stocks of all registered U.S. and Canadian companies and U.S. government and municipal bonds. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security. In addition to these two methods, we identified sponsors by visually inspecting plan names and sponsor names from the database to find common sponsors that were not identified by EINs or CUSIPs.
test our e-mail addresses for these respondents. This Web questionnaire consisted of 105 questions and covered a broad range of areas, including

- the status of current DB plans;
- the status of frozen plans (if any) and the status of the largest frozen plan (if applicable);
- health care for active employees and retirees;
- nonwage compensation priorities;
- pension and other benefit practices or changes over approximately the last 10 years\(^3\) and the reasons for those changes\(^4\) (parallel questions asked for plans covering collectively bargained employees and those covering nonbargaining employees);\(^5\)
- prospective benefit plan changes;

---

\(^3\)The GAO Survey of Large Defined Benefit Plan Sponsors asked firms about changes made to benefit offerings between 1997 and the time of survey response, which for nearly all responding sponsors, was prior to July 2008.

\(^4\)The reasons varied by the individual question. We developed an initial set of reasons that we pretested with sponsors, and we revised our list of reasons, given respondent reactions and input during those pretests. An open-ended “other” reason was also offered to respondents if the sponsor felt other reasons were needed to clarify an answer.

\(^5\)The parallel questions in the survey asked the respondents to report for “plans covering nonbargaining unit employees only” and “plans covering collective-bargaining unit employees.” Generally speaking, 40 respondents reported on the questions referring to plans covering nonbargaining unit employees, and 24 respondents reported on the questions referring to plans covering collective-bargaining unit employees. The 24 respondents that answered questions related to plans covering collective-bargaining unit employees generally also answered questions relating to plans covering nonbargaining unit employees. The number of respondents for a given survey question are enumerated in the briefing as “Ns” in appendix II. While we attempted to use consistent terminology for bargaining status throughout the survey, plans covering collectively bargained employees are not necessarily the same as collectively bargained plans. Some collectively bargained plans may cover nonbargaining unit employees—possibly under a separate nonnegotiated benefit structure. Further, a plan covering members of a bargaining unit is sometimes not collectively bargained, although collectively bargained pension plans are common among large plan sponsors that have employees covered by collective-bargaining agreements. Our survey only asked about plans covering collectively bargained employees, and we cannot determine if these plans also include nonbargained employees or if the plan itself is actively bargained.
Appendix II: Scope and Methodology

- the influence of laws and accounting practices on possible prospective benefit changes; and

- opinions about the possible formation of a new DB plan.

The first 17 questions and last question of the GAO Survey of Sponsors of Large Defined Benefit Pension Plans questionnaire mirrored the questions asked in a shorter mail questionnaire (Survey of DB Pension Plan Sponsors Regarding Frozen Plans) about benefit freezes that was sent to a stratified random sample of pension plan sponsors that had 100 or more participants as of 2004. Sponsors in the larger survey were, like the shorter survey, asked to report only on their single-employer DB plans.

To help increase our response rate, we sent four follow-up e-mails from January through November 2008. We ultimately received responses from 44 plan sponsors, representing an overall response rate of 44 percent.

To pretest the questionnaires, we conducted cognitive interviews and held debriefing sessions with 11 pension plan sponsors. Three pretests were conducted in-person and focused on the Web survey, and eight were conducted by telephone and focused on the mail survey. We selected respondents to represent a variety of sponsor sizes and industry types, including a law firm, an electronics company, a defense contractor, a bank, and a university medical center, among others. We conducted these pretests to determine if the questions were burdensome, understandable, and measured what we intended. On the basis of the feedback from the pretests, we modified the questions as appropriate.

Nonsampling Error

The practical difficulties of conducting any survey may introduce other types of errors, commonly referred to as nonsampling errors. For example, differences in how a particular question is interpreted, the sources of information available to respondents, or the types of people who do not respond can introduce unwanted variability into the survey results. We included steps in both the data collection and data analysis stages for the purpose of minimizing such nonsampling errors.

We took the following steps to increase the response rate: developing the questionnaire, pretesting the questionnaires with pension plan sponsors, and conducting multiple follow-ups to encourage responses to the survey.
Appendix II: Scope and Methodology

We performed computer analyses of the sample data to identify inconsistencies and other indications of error and took steps to correct inconsistencies or errors. A second, independent analyst checked all computer analyses.

We initiated our audit work in April 2006. We issued results from our survey regarding frozen plans in July 2008. We completed our audit work for this report in March 2009 in accordance with all sections of GAO’s Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

6We previously used a portion of this survey to analyze frozen plan tendencies, which used a stratified random probability sample of 471 DB pension sponsors from PBGC’s 2004 Form 5500 Research Database. See GAO, Defined Benefit Pensions: Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges, GAO-08-817 (Washington, D.C.: July 21, 2008).
Appendix III: GAO Contact and Staff Acknowledgments

<table>
<thead>
<tr>
<th>Contact</th>
<th>Barbara D. Bovbjerg, (202) 512-7215 or <a href="mailto:bovhjergb@gao.gov">bovhjergb@gao.gov</a>.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff</strong></td>
<td>In addition to the contact above, Joe Applebaum, Sue Bernstein, Beth Bowditch, Charles Ford, Brian Friedman, Charles Jeszeck, Isabella Johnson, Gene Kuehneman, Marietta Mayfield, Luann Moy, Mark Ramage, Ken Stockbridge, Melissa Swearingen, Walter Vance, and Craig Winslow made important contributions to this report.</td>
</tr>
<tr>
<td>GAO’s Mission</td>
<td>The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO’s commitment to good government is reflected in its core values of accountability, integrity, and reliability.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Obtaining Copies of GAO Reports and Testimony</td>
<td>The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO’s Web site (<a href="http://www.gao.gov">www.gao.gov</a>). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <a href="http://www.gao.gov">www.gao.gov</a> and select “E-mail Updates.”</td>
</tr>
<tr>
<td>Order by Phone</td>
<td>The price of each GAO publication reflects GAO’s actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO’s Web site, <a href="http://www.gao.gov/ordering.htm">http://www.gao.gov/ordering.htm</a>. Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537. Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.</td>
</tr>
<tr>
<td>To Report Fraud, Waste, and Abuse in Federal Programs</td>
<td>Contact: Web site: <a href="http://www.gao.gov/fraudnet/fraudnet.htm">www.gao.gov/fraudnet/fraudnet.htm</a> E-mail: <a href="mailto:fraudnet@gao.gov">fraudnet@gao.gov</a> Automated answering system: (800) 424-5454 or (202) 512-7470</td>
</tr>
<tr>
<td>Congressional Relations</td>
<td>Ralph Dawn, Managing Director, <a href="mailto:dawnr@gao.gov">dawnr@gao.gov</a>, (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, DC 20548</td>
</tr>
<tr>
<td>Public Affairs</td>
<td>Chuck Young, Managing Director, <a href="mailto:youngc1@gao.gov">youngc1@gao.gov</a>, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548</td>
</tr>
</tbody>
</table>