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An audit of the Pension Benefit Guaranty Corporation's financial statements covered the 37-month period from establishment of the Corporation through September 30, 1977. Preliminary financial statements for fiscal year 1977 were materially misstated, and GAO's opinion on revised statements still required qualification because of methods used in estimating the reserve for guaranteed benefits and uncertainties in the outcome of pending litigation. The Corporation's computer-based accounting system was not adequate to develop financial statements. Because of serious problems, GAO will continue its audit efforts at the Corporation. The Employee Retirement Income Security Act of 1974 established an insurance program to guarantee the payment of certain benefits to participants of multiemployer-sponsored defined benefit pension plans and mandated the Corporation to study and report on financial effects of plan termination insurance coverage and the alternatives available to assure adequate program financing and proper benefit coverage. Its report stated that cost estimates of current and alternative program provisions were uncertain but can be used for comparative evaluations of alternatives. The high degree of uncertainty in the estimates makes it difficult to rely on them for comparing costs and making decisions. (HTW)

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STATEMENT OF
GREGORY J. AHART, DIRECTOR
HUMAN RESOURCES DIVISION
UNITED STATES GENERAL ACCOUNTING OFFICE
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ON
PENSION BENEFIT GUARANTY CORPORATION'S
FINANCIAL STATEMENTS AND MULTIEMPLOYER
INSURANCE PROGRAM STUDY

Mr. Chairman and Members of the Subcommittee:

We are pleased to appear here today to present information on our work at the Pension Benefit Guaranty Corporation. The first assignment we will discuss involves an audit of the Corporation's financial statements which is required by the Government Corporation Control Act (31 U.S.C. 841). The other assignment we will discuss primarily involves our monitoring of a study by the Corporation, required by Public Law 95-214, on the financial condition and possible alternatives to the multiemployer pension benefit guarantee program. Our monitoring of the Corporation's study is in response to a January 3, 1978 request from the Chairman, Subcommittee on Private Pension Plans and Employee Fringe Benefits of the Senate Committee on Finance.

AUDIT OF FINANCIAL STATEMENTS

Our audit of the Corporation's financial statements covers the 37-month period from establishment of the Corporation through September 30, 1977. Our work has been primarily directed to an examination of the Corporation's financial condition as of September 30, 1977, and the operations for the fiscal year then ended.

Preliminary financial statements were materially misstated

In December 1977, the Corporation provided us with preliminary financial statements for fiscal year 1977.

Our review of the Corporation's internal reporting systems, accounting records, and data on actual and pending terminations of pension plans and tests of financial transactions disclosed that 87 pension plans and their related assets and liabilities were not included in the compilation of plans which terminated prior to September 30, 1977, and, accordingly, were not included in the Corporation's financial statements.

In addition, the Corporation had omitted the assets and liabilities from the financial statements for nine other terminated plans where plan administrators had indicated the plans' assets were insufficient to pay promised benefits to plan participants but had advised the Corporation that the plan sponsors would make up the insufficiency. Notwithstanding indications from the plan administrators that the plans would be made sufficient, these plans represent liabilities to the Corporation until such time as they are, in fact, made sufficient.

In May 1978, we advised Corporation officials that the omission of the assets and liabilities of the 96 plans had a material effect on the financial statements and unless the financial statements were corrected prior to formal issue, we would have to render an opinion that the financial statements do not present fairly the financial position of the Corporation at September 30, 1977, and the results of its operations and the changes in its financial position for the fiscal year then ended.

After a series of meetings, Corporation officials agreed that the financial statements needed to be revised. In June 1978, the Corporation adopted a detailed work program to collect the missing financial data and update previously reported information. This effort, which was completed in August 1978, resulted in material adjustments to the financial statements. The present value of the liability for future benefit payments to participants of terminated plans increased by $22 million, assets of terminated plans not in trusteeship increased by $15 million, estimated recoveries from employers on terminated plans increased by $3 million, and the reserve for payment of guaranteed benefits to participants in pending plan terminations decreased by $4 million.

<u>Qualification of opinion on revised financial statements still necessary</u>

Although the Corporation has taken action to assure that the revised financial statements reflect all terminated pension plans as of September 30, 1977, we are still unable to state without qualification that the financial statements present fairly the financial position at September 30, 1977, and the results of its operations and the changes in its financial position for the year then ended. The qualification of our opinion on the financial statements is necessary because of

(1) the methods used in estimating the reserve for guaranteed benefits and (2) uncertainties in the outcome of pending litigation that can have a material impact on the Corporation's financial condition.

Estimating reserve for guaranteed benefits

The reserve for guaranteed benefits is based on (1) estimates by plan administrators, private actuaries, or the Corporation and (2) actual benefits payable in those cases where the Corporation has all the data essential for making the final determinations of benefits due individual employees under specific plans. The principal component of the reserve is the present value of future benefits for terminated plans which is estimated at $228 million. Less than one-fifth of the $228 million was based on actual determinations by the Corporation. The remaining liability was based on estimates.

Our actuaries reviewed the calculation of employee benefits for 27 plans with a total liability estimated by the Corporation of about $74 million. Because of problems--such as the following--in the methods of calculating benefits, our actuaries were not able to verify the accuracy of the calculations.

--Calculations for one plan were based completely on empirical data. The Corporation estimated the liability for each terminating employee at $4,500 and used an estimated number of employees terminating rather than the actual number terminating.

--There was no support in the files for benefit estimates for seven of the plans.

--A Corporation case officer, rather than an actuary, estimated the benefits for one of the plans.

--For seven plans, benefits were based on accrued or vested benefits from actuarial valuations made prior to the date of termination without checking against actual experience at date of termination.

Also, in updating the present value of future benefits for inclusion in the financial statements, the Corporation applied the benefits, estimated at date of each plan termination, to a computerized model to arrive at changes in the liability, notwithstanding that current actual data in many cases was in possession of the Corporation. The computerized model consisted of a prototype plan employing broad averages and assumptions.

After we discussed, with Corporation officials, our findings on deficiencies in the calculation of benefits a test was made by the Corporation comparing actual liability determinations with previous estimates. The results of the test indicate that:

--the Corporation's estimates varied by less than 4 percent from its actual determinations,

--plan administrators' estimates of benefits varied about 15 percent from the Corporation's calculation of benefits, and

--estimates generally overstated the Corporation's liability for future benefit payments.

We have not yet completed our analysis of the test and, accordingly, are not able to comment on the adequacy or accuracy of the test.

Uncertainties in outcome of litigation

The outcome of pending court cases brought by or against the Corporation could have a material impact on the Corporation's financial condition. Two basic questions relating directly to the financial statements have been raised involving (1) collectability of about $40 million due from employers for terminated plans and (2) the Corporation's jurisdictional authority which could entail refunding premiums collected from collectively-bargained multiemployer plans.

Under section 4062 of ERISA, a defined benefit plan sponsor is liable to the Corporation for up to 30 percent of its net worth for the amount which plan assets are insufficient to pay guaranteed benefits. Several pending court cases have raised legal questions as to the extent employer liability is collectable by the Corporation. In one case involving a parent and subsidiary relationship, a bankruptcy judge ruled that liability was limited to that of the subsidiary directly responsible for the insufficiency of assets in the terminated plan. The Corporation is appealing the ruling. In this case the Corporation is seeking to establish that members of a controlled group of businesses are jointly and severally liable for the insufficiency of a terminated plan based on the consolidated statutory net worth of the entire group.

In several other pending court cases, plan sponsors contend that plans (1) terminating before the effective date of ERISA's vesting provisions and (2) having a specific plan provision limiting the sponsor's liability for benefits to the extent of plan assets, are not subject to the employer liability provisions. Since ERISA's vesting provisions became effective with a plan's first plan year beginning after December 31, 1975, an adverse ruling could affect the collection of employer liability for plans terminating before the provisions' effective date. Further, although not specifically addressed in a court case, a bankruptcy judge has indicated that collection of employer liability occurring before ERISA vesting and funding requirements became effective may be unconstitutional.

In another type of case, several multiemployer plans have brought suit against the Corporation, contending that a collectively-bargained plan, with a defined employer contribution rate, is not covered under ERISA even though the plan provides for specific benefits for the participants. An adverse ruling on this issue could entail the return of premiums paid to the Corporation and could prohibit future premium collections for this type of plan.

The Corporation, in a note to its financial statements, states that "Although management and counsel believe the Corporation will be successful in defending these cases, neither are in a position to predict the ultimate outcome of these matters."

<u>Accounting system not adequate to develop financial statements</u>

The Corporation has in place a computer-based system referred to as "Trusteeship and Insufficient Case Summary System," or TICS, which is an integral part of the Corporation's overall management information system. TICS is supposed to contain essential financial information on all identified insufficient plans, as well as other plans which are not insufficient but for which the Corporation has assumed trusteeship. Information on such cases is supposed to be coded by the case officer--assigned to each terminated plan--onto a computer-generated form for review by the supervisor and entry into the computer. Once a case is entered, data is to be updated as soon as more accurate information becomes available. Ideally, current data on terminated plans could and should be provided by TICS on an as needed basis for both management needs and financial reporting purposes.

The system, however, is concerned with plan asset and liability data only at the date of plan termination. As a result, the Corporation must use other means to make the TICS data current as of financial statement date. For example, the computerized model discussed earlier is used to update TICS liability data. Case officers must obtain asset data manually from plan administrators for a significant portion of the Corporation's assets.

The Corporation recognizes many of these problems and has plans to correct them. However, progress has been slow. For example, in January 1977, the Corporation initiated a project that is planned to culminate in a new computer-based system to support the computation of benefit liabilities of terminating plans. The system design, however, has not yet been completed.

GAO financial audit of the Corporation will continue

GAO is required by the Government Corporation Control Act to audit the financial statements of the Pension Benefit Guaranty Corporation not less frequently than every 3 years. However, because of the serious problems being experienced by the Corporation, we believe that we should continue our financial audit efforts at the Corporation. Thus, at the completion of our work in October 1978, on the Corporation's fiscal year 1977 financial statements, we will commence auditing the Corporation's financial statements for the fiscal year ending September 30, 1978. During the audit we will work with the Corporation in improving its accounting system and strengthening its internal controls.

MULTIEMPLOYER PROGRAM STUDY: CAUTIOUS USE SHOULD BE MADE OF RESULTING COST ANALYSIS

Mr. Chairman, I would like to talk now about the multiemployer pension benefit guarantee program.

The Employee Retirement Income Security Act of 1974 established an insurance program to guarantee the payment of certain benefits to participants of multiemployer-sponsored defined benefit pension plans. The program, administered by the Corporation, is to be self-financing through premium collections from ongoing plans and collections from terminating plan sponsors of up to 30 percent of the sponsors' net worth for plan asset insufficiencies at the time of termination.

Initially, coverage for about 1,700 multiemployer plans with approximately 8 million participants was made available subject to the Corporation's discretion. The multiemployer plan coverage was to become mandatory on January 1, 1978.

Because of congressional concern that a large number of multiemployer plans with large unfunded liabilities could terminate, threatening the financial condition of the insurance program and injuring participants by putting the burden of financing large program obligations on continuing plans through excessively high premium charges, Public Law 95-214 was enacted on December 19, 1977, to extend discretionary and delay mandatory program coverage of multiemployer plans until July 1, 1979.

As of August 31, 1978, the Corporation had extended discretionary coverage to four terminated multiemployer plans with about 6,600 participants and about $28 million in unfunded liabilities. According to the Corporation, the current premium rate of 50 cents per-participant-per-year will not be sufficient to finance this liability, much less that of other terminating multiemployer plans.

The act also mandated the Corporation to study and prepare a report by July 1, 1978, on the financial effects of mandatory multiemployer pension plan termination insurance coverage, and alternatives available to assure adequate program financing and proper benefit coverage. On July 1, 1978, the Corporation released its report, entitled "Multiemployer Study Required by P.L. 95-214."

The study consisted of two major complex elements--the conceptualization of program policy alternatives and an analysis of the cost of current and alternative program provisions. The underlying basic philosophy followed in conceptualizing the alternatives presented in the July 1, 1978, report was that plan continuation provides the greatest security against the loss of participant benefits. The Corporation states that the program alternatives presented in its report are designed to strengthen the financial condition of multiemployer plans, reduce termination incentives, and control and equitably distribute program costs.

The report contains numerous alternatives which are complex themselves and have extremely complex interrelationships. The Corporation does not take a position on which alternatives are preferred. A Corporation official advised us that a report on the specific options considered best will be issued in the near future.

The Corporation's cost analysis does not include an evaluation of all alternatives presented in the report. The cost analysis is directed at evaluating the potential cost impact of certain current program provisions and the individual and cumulative cost impact of four major alternatives over a 10-year period using 1976 as the base year. The four alternatives and their general objectives are:

--<u>Funding standards</u> strengthened to require quicker payment of unfunded plan liabilities, adequate sponsor contributions to pay benefits when they become due, and restricted benefit increases when actual contributions fall short of needs.

--Voluntary plan reorganization rather than termination for financially troubled plans in terms of increased contribution amounts, limited benefit increases or reduced benefits.

--Benefit guarantee levels reduced or phased in to control program liability.

--Employer liability increased to cover terminating plan asset insufficiencies and control program cost.

The cost analysis indicates that 166 multiemployer plans with an estimated 1.3 million participants could terminate over a 10-year period exposing the insurance program to pension benefit guaranty liabilities ranging from about $8.3 billion under the current program to about $1.4 billion under a revised program. According to the Corporation, this liability exposure could require a premium charge per participant per year to ongoing plans ranging from $79.50 to 10 cents. Further, depending on the program structure, the Corporation estimates that participant benefit protection could range from about 94 percent of vested benefits to about 43 percent.

Our efforts were primarily focused on the reliability of the Corporation's cost analysis because of its potentially significant use for deciding how the multiemployer program should be structured. In this regard, we examined the data and methods used, and the key estimates and assumptions made by the Corporation and its contractors bearing on the reliability of the cost analysis. We also discussed details of the study with the Corporation's project staff and contractor personnel.

Historical data on the multiemployer plan termination insurance program under ERISA and the resulting cost impact is virtually nonexistent. The Corporation's cost analysis attempts to estimate, for multiemployer plans forecasted to be in financial trouble, the potential cost impact of certain existing and alternative program provisions on plan sponsors and participants.

To estimate the effect of current and alternative program provisions on program costs, the Corporation made numerous estimates and assumptions about the financial condition and characteristics of a sample of multiemployer plans over a 10-year period; which plans would terminate or become unable to pay promised benefits; and the effects of different program provisions. The Corportion then used the sample results to estimate program costs under different alternatives for all multiemployer plans.

Our review of the cost estimates shows that they are subject to a very high degree of uncertainty. It should be recognized, however, that the Corporation was asked to perform an extremely difficult task, in a short time-frame, for which basic data are not available. Under the circumstances, we believe the Corporation did as good a job on the study as could be expected.

Estimating the financial condition of multiemployer plans

The Corporation's first major step in making the cost analysis was to select a random sample of multiemployer plans and estimate their financial condition over a 10-year period using computer program processing techniques (computer modeling).

Faced with limited available information on current plan characteristics and the requirement to predict future characteristics the Corporation departed significantly from the randomness of the sample selection and made numerous estimates and assumptions about both current and future plan financial condition and other characteristics.

Statistical reliability

One essential condition for making statistically supportable inferences from a sample of plans to the total is that the sample must be randomly selected. Any substitutions made for randomly selected plans compromise the randomness of the sample and the validity of statistical inferences made.

Initially, the Corporation listed the total of 1,736 multiemployer plans by size and industry type, and selected a sample of 283. The sample, which covers about 72.5 percent of all multiemployer plan participants, consisted of all 127 plans in the total with over 10,000 participants and 156 of the 1,609 plans with less than 10,000 participants. The 156 smaller plans were randomly selected. Subsequently, 4 of the 127 larger plans were dropped for lack of available information which reduced the sample to 279. The Corporation also substituted plans for 77, or about 50 percent, of the 156 smaller plans because of the lack of readily available information. According to the Corporation, 65 of the smaller plans were replaced by similar plans for which data was available from two other studies and 12 of the plans were replaced by similar plans randomly selected as back-up to the Corporation's initial random selection.

The Corporation views the smaller plan substitutions as appropriate because they were also randomly selected. We believe, however, that the large number of substitutions for the plans initially randomly selected for the cost analysis compromises the validity of estimates to the point that they cannot be statistically defended.

Financial condition

Because of a general lack of information, the requirement to predict future trends, and the practical limitation on the number of total and individual plan variables that could be considered in the time available, the Corporation made numerous estimates and assumptions about the characteristics of the sample of 279 plans. Plan characteristics were used to project the plans' financial condition over a 10-year period using computer modeling techniques. The plan characteristics for which estimates and assumptions were made included plan assets, liabilities, benefit payments, and contributions; plan participants and their status such as still working, retired, age, and years worked; plan provisions such as how benefit amounts are computed; and other plan characteristics such as the amount of annual administrative costs, and rates of investment return.

The number and uncertainty of the estimates and assumptions could affect the reliability of the results of the cost analysis. For example, to project future plan trends, the Corporation generally attempted to obtain actual information on important plan characteristics such as participants, assets, liabilities, and contributions for the 5-year period 1972 through 1976. Estimates, generally based on earlier data, were used for those years where actual information was not available or appeared incorrect. The accuracy of available information was not verified.

To ascertain the degree to which estimates were made, we determined the extent actual information on three participant status elements--still working, retired, and separated but vested--was available for the 1976 base year. These three participant status elements were among the key factors used to project plan liabilities and assets. We found that all three elements had to be estimated--using actual 1974 and 1975 data--for the base year for at least 56 percent of the 279 plans.

To illustrate the potential cost impact of using estimates rather than actual information, assume that the 1.3 million total estimated participants in the 166 plans that the Corporation estimates will terminate over the the 10-year analysis period is low or high by 10,000 participants or less than one percent. Using the Corporation's estimated $7,100 average unfunded vested benefit liability for each participant of the 166 plans for the 10-year period, program liability exposure estimates could be low or high by $71 million or less than 1 percent of the total estimated unfunded vested benefit liability.

As another example, the Corporation made a special effort to obtain complete and more detailed information on 24 of the 279 plans. Two key plan characteristics for which almost no information was available was the age and length of service of active and separated vested plan participants. These were two of the characteristics used to estimate such factors as the extent to which participants would retire or die, and the amount of accrued and vested benefits. These characteristics are key elements in determining plan liability and the amount of money needed to pay benefits during the 10-year period.

In the end, the Corporation obtained age and service information for 18 of the 279 plans and used this information to develop 21 standard age and service distributions. The average age of these distributions ranged from 35 to 55. The Corporation used the 21 standard distributions to estimate the average age and service of the active and separated vested participants of the remaining 261 plans.

The selection of which standard distribution would be used for each of the 261 plans was based on the estimated average age of participants for each plan which, in turn, was based on the ratio of retired to total participants. According to the Corporation, this method of estimation was used because of the high relationship that participant average age had to the age and service ratio for the 18 plans for which actual information was obtained.

The selection of the standard distribution used was critical to the validity of financial condition projections. To illustrate, the use of the average age 46 distribution for one of the 261 plans resulted in unfunded plan liabilities in the 1976 base year of $2.6 million. If the average age 45 distribution had been used for the plan, the unfunded plan liabilities would have been $1.7 million or about 35 percent less.

The Corporation used assumptions and estimates in computing program costs in place of actual information even when actual information was available. For example, although the actual benefit formulas for the sample plans were generally available, the Corporation used three to compute the benefit payment for all 279 plans. According to the Corporation, it was not possible to use the actual benefit formulas in all cases because they were too complex to adopt to the computer model.

To get an indication of the effect of using numerous estimates and assumptions in place of actual information on the accuracy of the 10-year financial condition estimates, we asked the Corporation to provide us with a comparison for the 1976 base year of actual plan sponsor contributions with those estimated using assumptions and estimates. We asked that this comparison be made only for the 24 plans on which the Corporation made a special effort to obtain complete information. We used the plan contribution characteristic for comparison purposes because of its importance in determining plan liabilities and resulting financial condition over the 10-year period.

The comparison provided by the Corporation showed that the total estimated contributions for 21 of the 24 plans were

$156.2 million whereas the actual contributions were $121.4 million for an overestimate of $34.8 million (over 28 percent) just for the base year. Actual contribution information was not available for the other three plans.

This overestimate of plan contributions could result in an underestimate of plan liabilities and potential multi-employer program costs and premium rates.

Plan termination forecasts

A criticial determinant in the cost analysis was the forecast of which of the 279 sample plans are likely to terminate because of financial hardship during the 10-year analysis period. To make this forecast, the Corporation used the estimated financial and other plan characteristics previously discussed and an estimated set of criteria for determining financial hardship and potential terminations. The application of these estimates resulted in a forecast that 42 of the 279 sample plans could terminate. By projecting these figures to total multiemployer plans, the Corporation estimates that 166 of the 1,736 plans could terminate exposing the current multiemployer program to a total of $8.3 billion in guaranteeable benefits and a premium rate per participant per year of $79.50.

Since no certain criteria exist for determining plan terminations, the Corporation had to develop these criteria judgmentally. The Corporation considered five sets of termination criteria which were based on differing plan characteristics. Corporation officials told us that the set of criteria used was discussed with practitioners from the industry and was selected over the four others because it was the most easily explainable, less complicated to apply, relatively conservative, and exhibited behavior similar to the others. It should be noted that because of the uncertain estimates of plan financial condition and the development of the termination criteria based on judgments, it is unknown whether the cost estimates are conservative.

The set of criteria used for determining financial hardship and plan termination was made up of three parts which had to be simultaneously met in one of the 10 years before it was identified as a termination. To be identified as a termination, a plan's

--total retired and separated vested participants had to be more than 34 percent of total participants,

--assets had to be less than 5.6 times annual benefit payments, and

--assets had to increase by less than 2.6 percent annually.

The Corporation analyzed the sensitivity of the set of criteria used by varying the values of its three parts. Although any combination of values that could have been used would have affected the results, the six sets of values considered showed that total program costs could range from $4.7 billion to $11.4 billion.

The Corporation also tested the sensitivity of the cost estimates to two additional termination assumptions. In one test, the Corporation made the assumption that 10 plans having a large number of participants and sponsoring employers would not terminate because of their potentially greater ability to avoid termination. This assumption reduced estimates of total current program liability exposure over half, from about $8.3 billion to about $3.8 billion and the premium rate per participant per year by almost half, from $79.50 to $44.56.

Effect of program provisions

The Corporation estimated the effect of current and alternative program provisions on program costs and required premium rates. The primary program provisions considered relate to employer liability for unfunded plan liabilities, reduced benefit guarantees, and voluntary plan reorganization in terms of increased sponsor contributions, limited benefit increases, and reduced benefits.

The Corporation's estimates of the effect of these provisions indicate that they could significantly affect the amount of total program costs and that the relative cost difference of using different program provisions could be great. As illustrated below, however, the estimates are uncertain, raising a question as to their reliability for indicating relative cost differences between current and alternative program provisions.

Employer liability

Under ERISA, plan sponsors are liable to the Corporation, for up to 30 percent of their net worth, for the amount which plan assets are insufficient to pay guaranteed benefits. As an alternative, the Corporation suggests that the 30 percent limitation provision could be removed making sponsors liable for total unfunded benefit liabilities.

The Corporation estimates that the $8.3 billion unfunded guaranteed benefit liability of projected plan terminations under current program provisions would be reduced by $3.5 billion (42 percent) through collections from plan sponsors of up to 30 percent of their net worth and require a premium rate per person per year of $79.50 to finance the remaining $4.8 billion. By changing the employer liability provision, the Corporation estimates that the $8.3 billion in unfunded guaranteed benefit liability would be reduced by $6.7 billion (80 percent) through employer liability collections, requiring a premium rate of about $30 to finance the remaining $1.6 billion.

The extent employer liability is collectable under either provision depends on numerous factors including the amounts of sponsor assets and unfunded plan liabilities, and is itself necessarily uncertain because of the lack of historical data on liability collections. Further, as previously stated in our discussion on the financial statements audit, several court cases have raised legal questions about liability collectability in certain situations.

In addition, the Corporation points out that the liability provisions themselves can affect program costs and premium rates. For example, low employer liability and high benefit guarantees could be an incentive for termination resulting in increased program costs and higher premium rates. High liability could be an incentive for the better funded plans to terminate, which may result in little or no increase in program cost but could increase premium rates.

Benefit guarantee level

The maximum benefit guarantee per participant under the current program is now over $1,000 per month. The Corporation's cost analysis considers six basic alternatives to this guarantee level, aimed at reducing program costs. The Corporation points out that reduced benefit guarantees could significantly affect participant benefit security.

The benefit guaranty alternatives considered included (1) a 50 percent reduction in the current guarantee level,

(2) a 10-percent-per-year phase-in of the current guarantee level, (3) guaranteeing at the current level only those benefits accruing after enactment of ERISA in September 1974, and (4) guaranteeing at the current level the benefits of participants already retired or near retirement at the time of termination.

The reliability of the Corporation's estimated program costs and premium rates for each of these alternatives depends on the number of plans that terminate, when they terminate, and the amount of guaranteeable benefits at the time of termination. As previously pointed out, the Corporation's estimates of these factors are very uncertain.

Conclusions

The Corporation states in its July 1, 1978, report that the cost estimates are uncertain and should not be viewed as precise projections because of the limited historical data on terminations, the difficulty in projecting future plan characteristics, and the influence of factors other than financial hardship, such as future economic trends, on program costs. The Corporation believes, however, that the estimates can be used for evaluating and comparing the relative size of and difference between the costs of certain existing and alternative program provisions.

The cost analysis was an energetic undertaking by the Corporation which indicates that multiemployer program costs under current and alternative program provisions could be tremendous. We believe, however, that the number and uncertainty of estimates and assumptions made in forecasting costs of current and alternative program provisions reflect the tremendous uncertainty of program costs that could be much lower or much higher than the Corporation estimates. Therefore, we believe that extreme caution should be exercised in using the estimates for comparing the costs of different program provisions and deciding how the multiemployer program should be structured.

Further, we believe that the limited available historical data on multiemployer plan characteristics and program provision experience, and the potential effect of other factors such as future economic trends, make it virtually impossible at this time to reliably estimate the costs of current and alternative multiemployer program provisions.

Mr. Chairman, this concludes our prepared statement. We will be pleased to respond to any questions that you or other members of the Subcommittee may have.