

Highlights of [GAO-09-207](#), a report to congressional requesters

Why GAO Did This Study

Some U.S. financial and pension consulting firms have recently proposed alternatives to terminating a defined benefit (DB) pension plan and contracting with insurance companies to pay promised benefits. In their proposals, a plan sponsor would typically transfer the assets and liabilities of a hard-frozen DB plan—one in which all participant benefit accruals have ceased—along with additional money, to a financial entity, which would become the new sponsor. Such buyouts would have implications for participants, plan sponsors, and the Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures private DB plans. This report addresses the following questions: (1) What is the basic model of proposed sales of frozen DB plans to third-party financial firms and how does it compare with a standard plan termination? (2) What are the potential risks and benefits of plan buyouts for participants, PBGC, plan sponsors, and other stakeholders? To address these questions, GAO reviewed proposed models for plan buyouts and analyzed regulatory and statutory issues associated with terminations and buyouts. GAO also interviewed labor and pension advocacy groups, pension regulatory agencies, and pension experts.

What GAO Recommends

GAO is not making any recommendations.

To view the full product, including the scope and methodology, click on [GAO-09-207](#). For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov or Josphe Applebaum at (202) 512-6336 or applebaumj@gao.gov.

DEFINED BENEFIT PLANS

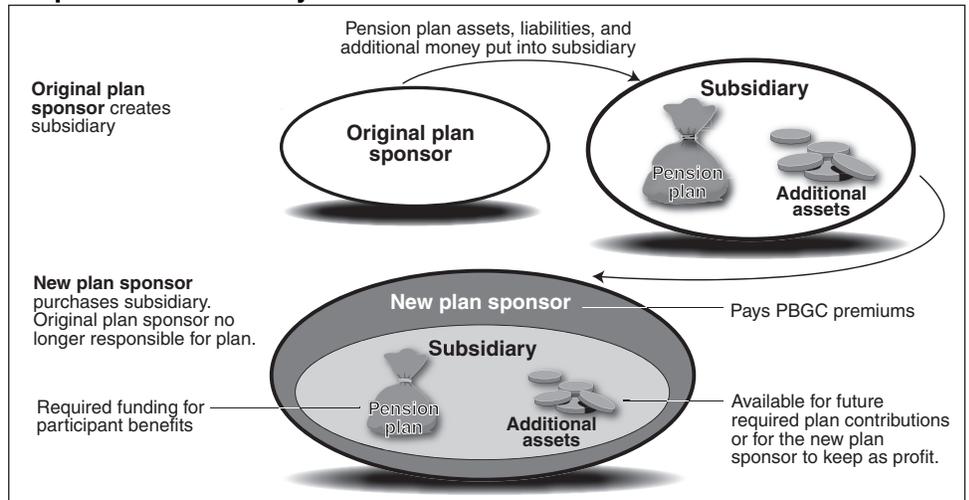
Proposed Plan Buyouts by Financial Firms Pose Potential Risks and Benefits

What GAO Found

In proposed DB plan buyouts, a third-party financial company would take over sponsorship of a hard-frozen plan from the original sponsor, in exchange for money to compensate for plan underfunding, expenses, and risk. As with a standard plan termination, the objective of a buyout would be to allow the original sponsor to shed its obligations to the plan, but potentially at lower cost and possibly with greater flexibility. In buyout proposals, the new sponsor would assume all plan responsibilities and PBGC guarantees would continue to apply to plan benefits. In comparison, a standard termination ends the plan, and an insurance company contracts to pay accrued benefits to participants (to the extent participants' benefits are not paid out by the plan as part of the termination); PBGC guarantees no longer apply, but state guarantees do. Insurance companies generally must comply with state-based risk-based capital requirements, which may provide safeguards against insurer insolvency and protections for pension benefits paid this way.

In some cases, plan buyouts could increase the security of DB pensions by allowing weak sponsors to transfer plan sponsorship to firms with stronger financial backing and improved plan management. However, buyouts would sever the employment relationship between sponsors and participants, possibly eroding incentives to manage the plan in the interests of participants. Buyouts could increase the risk of a large claim against PBGC by increasing the concentration of assets and liabilities held by a single sponsor or sector. They could also lead to conflicts between agencies regulating financial companies and those regulating pensions. In August 2008, the Internal Revenue Service issued a ruling declaring that a DB plan that was bought out by a nonemploying entity would not qualify for tax preferences under current law.

Proposed DB Plan Buyout Models



Sources: GAO analysis of proposed DB plan buyouts, Art Explosion (images).