

Why GAO Did This Study

The Pension Benefit Guaranty Corporation's (PBGC) insures the pension benefits of more than 44 million people. Since its inception in 1974, PBGC's assets have grown from about \$34 million to almost \$80 billion in 2010, largely through assets received in plan terminations. Despite significant swings in PBGC's investment history, there has been little focus on the extent to which it has met its investment goals, the nature of its investment policies or how they compare with best practices in the industry. GAO examined (1) how PBGC's investment objectives have changed over time and the outcomes associated with those changes, (2) the performance of PBGC's investments, and (3) how well PBGC's investment policies and operations comport with best practices in the industry. To address these questions, GAO reviewed PBGC's investment policy statements and operational procedures; analyzed data on investments; and interviewed PBGC officials, officials from several state pension plans and foreign pension insurers, and other experts.

What GAO Recommends

GAO recommends that the PBGC and its board of directors (1) develop and maintain comprehensive investment policy statements and (2) develop a complete set of operating procedures and guidelines for its investment activities. GAO received comments from the Department of Labor and the PBGC. They generally agreed with our recommendations.

PENSION BENEFIT GUARANTY CORPORATION

Asset Management Needs Better Stewardship

What GAO Found

PBGC's investment objectives and stated asset allocation targets have changed frequently in the last 8 years, alternating between more conservative and more aggressive approaches to investing. Yet these changes in stated objectives had only a moderate effect on PBGC's actual asset allocation because, for a variety of reasons, PBGC did not meet its targets. In our review of their investment history, we found that PBGC did not routinely monitor transaction costs related to its policy shifts and, at certain times, significant transaction costs were incurred. For example, we determined based on data obtained from PBGC's investment managers that nearly \$75 million in transaction costs were incurred during the economic downturn which coincided with the period when the 2008 policy was being implemented and subsequently suspended.

Using seven benchmarks, one of which was a Pension Protection Act benchmark that GAO constructed, GAO's analysis shows that PBGC's investments performed better than most benchmarks on an asset-only basis, but tended to underperform all seven of the benchmarks when returns were assessed together with the growth in liabilities. GAO notes that both analyses have limitations and can be seen by some experts as incomplete. However, GAO's method of analysis is consistent with how financial economics literature suggests investment performance analysis should be conducted. Finally, GAO's analysis found no apparent adverse effect on PBGC's investment performance as a result of changes in policy.

PBGC's policy statements and operating procedures are incomplete and do not provide sufficient guidance to ensure sound implementation of its investment policies. The investment policies issued by PBGC's board for strategic guidance in the planning and execution of investments have generally lacked a number of provisions recommended by the Chartered Financial Analyst Institute; Independent Fiduciary Services; and other experts of sound investment management, such as the Government Finance Officers Association. Moreover, according to our review and based on interviews with PBGC staff, the policy statements have been insufficiently detailed to provide adequate guidance for staff. In addition, PBGC's Corporate Investments Department's staff have largely functioned without the benefit of fully-developed and documented operating procedures.

Although PBGC has grown from a relatively small agency to one holding almost \$80 billion in assets, its policies and procedures still reflect in many ways its small agency past. To ensure that PBGC can effectively and consistently meet its obligation to manage a fund of this size and its liabilities, PBGC's board and its management must enact better stewardship, standards, and procedures to ensure that PBGC can effectively and consistently meet its obligation to conduct the many investment related functions it performs.