

Highlights of [GAO-13-58](#), a report to the Chairman, Committee on Health, Education, Labor, and Pensions, U.S. Senate

Why GAO Did This Study

At the end of fiscal year 2011, PBGC insured the pension benefits of 44 million U.S. workers, retirees, and beneficiaries in about 27,000 private defined benefit plans. PBGC's 2011 net accumulated deficit of \$26 billion, coupled with future risks posed by plan sponsors and their plans, threatens PBGC's solvency. To help contain PBGC's deficit, Congress recently passed legislation increasing PBGC premiums. Beyond simply increasing rates, the administration has proposed granting PBGC authority to redesign its premium structure to more fully reflect the risk of new claims. To better understand the issues involved, GAO was asked to examine (1) the options available to adjust premiums to improve PBGC's financial condition; (2) the potential implications of adjusting premiums; and (3) the potential implementation challenges in moving to a more risk-based premium structure.

To conduct this work, GAO reviewed relevant legislation, analyzed PBGC premium data, and interviewed officials implementing other risk-based premium structures in this country and the United Kingdom, as well as numerous experts and plan sponsors reflecting a broad spectrum of perspectives on the topic.

What GAO Recommends

GAO suggests that Congress consider revising PBGC's premium structure to better reflect the agency's risk from individual plans and sponsors, and recommends that PBGC further develop its analyses of possible redesign options. PBGC agreed with our recommendation.

View [GAO-13-58](#). For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeck@gao.gov.

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PENSION BENEFIT GUARANTY CORPORATION

Redesigned Premium Structure Could Better Align Rates with Risk from Plan Sponsors

What GAO Found

Various options are available to make the Pension Benefit Guaranty Corporation's (PBGC) premium structure more risk-based and better reflect the risk of future claims. Historically, PBGC's premiums have not fully reflected the risks PBGC insures against—chiefly that a plan sponsor with an underfunded plan will become bankrupt, forcing the termination of the plan and imposing a claim on PBGC. PBGC's current structure relies largely on a flat-rate premium that is based on the number of plan participants and that assesses rates equally per plan participant across all sponsors. PBGC also charges a variable-rate premium that is based on just one risk factor, plan underfunding. One available option is to further increase rates within this current structure; however, plan underfunding alone is a poor proxy for the risk of new claims. An alternative option is to redesign premiums to incorporate additional risk factors, such as a sponsor's financial strength (as currently being explored by PBGC) or a plan's investment strategy (as is currently done in the United Kingdom).

Moving to a more risk-based system would shift premium costs among sponsors. To analyze the potential effects of different premium structures, PBGC developed a model using data from a sample of about 2,700 plans. Under one possible option explored by PBGC that incorporated an additional risk factor for a sponsor's financial health, financially healthier sponsors would tend to pay less and financially riskier sponsors more—as much as \$257 more per participant, depending on their assigned risk level. Some pension experts and plan sponsors we spoke with raised concerns about this potential redistribution of costs. For example, some believe that plan terminations would increase. However, prior work from GAO and others indicates that other factors—including sponsor size, collective bargaining agreements, and overall plan cost—are more important in sponsors' decisions to freeze their plans. Some pension experts and plan sponsors also noted that a more risk-based system could lead to premium increases during poor economic conditions when sponsors are least able to pay, and that it is inequitable for current sponsors to pay higher rates to address costs resulting from prior plan terminations. However, experts also made suggestions about how to address such concerns within a redesigned premium structure, such as by capping premium levels and averaging sponsors' funding levels over multiple years to reduce volatility.

The process of redesigning and implementing a more risk-based premium structure poses potential data and administrative challenges. To help address these challenges, PBGC's model could be further developed to evaluate the implications of incorporating additional risk factors, such as company financial health and plan investment mix. Such efforts could include identifying any additional data needs, as well as exploring the effects on sponsors, including any potentially disproportional hardships on smaller companies resulting from redistributing higher rates to riskier sponsors based on a redesigned structure. Although PBGC is uniquely situated to take on additional rate-setting responsibilities, if Congress were to relinquish some authority in this area, certain safeguards still may be required to help mitigate concerns about PBGC's governance, oversight, and transparency. These safeguards could include additional congressional oversight, soliciting public feedback, and establishing an appeals process for sponsors who wish to challenge their assessment.