Improvements Needed to Address Financial and Management Challenges

PBGC administers the current or future pension benefits for a growing number of participants of plans that have been taken over by the agency—from 500,000 in fiscal year 2000 to 1.3 million participants in fiscal year 2007. PBGC is financed by insurance premiums set by Congress and paid by sponsors of defined benefit (DB) plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for those trusteed plans; PBGC receives no funds from general revenues. The treatment of PBGC in the federal budget is complicated by the use of two accounts—an on-budget revolving fund and a non-budgetary trust fund. Ultimately this budget treatment can be confusing—especially in the short-term—as on-budget gains may be offset by long-term liabilities that are not reported to on-budget accounts.

PBGC’s single-employer program faces financial challenges from a history of weak plan funding rules that left it susceptible to claims from sponsors of large, severely underfunded pension plans. PBGC had seen recent improvements to its net financial position due to generally better economic conditions and from statutory changes that raised premiums and took measures designed to strengthen plan funding and PBGC guarantees. However, certain improvements have only just begun phasing-in and the changes did not completely address a number of the risks that PBGC faces going forward. Further, PBGC just began implementing a new investment policy that, while offering the potential for higher returns, also adds significant variability and risk to the assets it manages. Also, changing economic conditions could further expose PBGC to future claims.

Improvements are needed to PBGC’s governance structure and to its strategic approach to program management. PBGC’s three member board of directors is limited in its ability to provide policy direction and oversight. PBGC may also be exposed to challenges as the board, its representatives, and the director will likely change with the upcoming presidential transition in January. In addition, PBGC lacks a strategic approach to its acquisition and human capital management needs. Three-quarters of PBGC’s administrative budget is spent on contractors, yet PBGC’s strategic planning generally does not recognize contracting as a major aspect of PBGC activities.