Basics of the Pension Benefit Guaranty Corporation (PBGC)

Overview
- The first U.S. private-sector pension plans were created in the late 1800s by the railroad industry. While there were numerous pension plan failures over the years in various industries, the pivotal event that led to comprehensive federal regulation was the 1963 collapse of the Studebaker Company, the oldest major automaker in the nation. About 11,000 workers were affected by the termination of Studebaker’s pension plans. The Studebaker case created strong political support for enactment of the Employee Retirement Income Security Act of 1974 (ERISA), the major federal law that governs private-sector retirement and health plans.
- ERISA established new requirements for private-sector defined benefit pension plans regarding participation, funding, vesting, reporting, fiduciary duties, and financial disclosure. The law also established the Pension Benefit Guaranty Corporation (PBGC) as a federal corporation.
- The PBGC currently guarantees payment of basic pension benefits for more than 44 million American workers and retirees participating in more than 31,000 private-sector defined benefit pension plans as of 2003. The agency receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor pension plans and by PBGC’s investment returns.
- PBGC has three principal missions:
  - To encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants.
  - To provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries under covered plans when bankruptcy occurs.
  - To maintain premiums at the lowest level consistent with fulfilling its obligations.
- The program insures only private-sector defined benefit plans; it does not insure church or public-sector pension plans, nor does it insure defined contribution plans (such as 401(k) plans).
- The program is designed to be self-financing. Revenue consists of premiums paid by plan sponsors, assets acquired from terminated plans, recoveries from terminated sponsors, and earnings from invested assets.
- PBGC’s liabilities are not explicitly backed by the full faith and credit of the federal government; doing so would require a change in the law.
- The PBGC covers both single-employer and multiemployer pension plans. Multiemployer plans are collectively bargained (union) plans to which more than one company makes contributions. As of the end of fiscal year 2004 (Sept. 30, 2004), the single-employer program accounted for virtually all of the PBGC’s deficit.

Single-Employer Program (SEP)
- PBGC SEP-insured participants and plans, year-end 2003:
  - Total insured participants: 34.6 million.
  - Total active insured participants: 17.2 million.
  - Single-employer plans: 29,512.
- Financial position of the PBGC single-employer program as of Sept. 30, 2004:
  - Total assets held: $39.0 billion.
  - Present value of future benefits owed to covered workers and to “probable terminations:” $60.8 billion.
  - Net fiscal position: a deficit of $23.3 billion, including “probable terminations.”
The single-employer program has operated in a negative net fiscal position throughout the history of PBGC, except from 1996–2001. The largest pension default in PBGC history was the termination of United Airlines’ plans in 2005, which were underfunded by an estimated $9.8 billion before adjustment for the level of PBGC guarantees (which are less than full benefit promises) and for recovery that PBGC may gain should United emerge from bankruptcy and be successful. The largest previous U.S. pension default was Bethlehem Steel’s $3.6 billion in underfunding in 2002.

Insurance activity as of Sept. 30, 2004:
- Benefits paid to PBGC-covered single-employer pension participants: $3.0 billion.
- Total participants in plans trusteeed and planning trusteeship by PBGC: 961,000.
- Number of single-employer participants receiving benefits from the PBGC: 517,900.
- Plans trusteeed and planning trusteeship by PBGC: 3,469.

Under the single-employer program, PBGC pays monthly retirement benefits up to a guaranteed maximum. The maximum payments in 2005 for a single life annuity are:
- At age 65: $3,801.14 a month (or $45,614 per year).
- At age 62: $3,002.90 a month (or $36,035 per year).
- At age 60: $2,470.74 a month (or $29,349 per year).
- At age 55: $1,710.51 a month (or $20,526 per year).
- Benefit increases and new benefits are only partially covered by PBGC’s guarantee if they have been in the plan less than five years on the date of plan termination. PBGC guarantees the larger of 20 percent or $20 per month of the increase for each whole year since the benefit increase. Participants may receive the full benefit increase if the increase has been in the plan more than five years. Generally, benefit increases occurring within one year of plan termination are not guaranteed.

Multiemployer Program (MEP)
- PBGC MEP insures multiemployer plans, defined as collectively bargained pension arrangements involving unrelated employers, usually in a common industry, such as construction, trucking, textiles, or coal mining.
- Under the multiemployer program, PBGC provides financial assistance through loans to plans that are insolvent (that is, plans that are unable to pay basic PBGC-guaranteed benefits when due). Before a plan receives financial assistance from PBGC, it must suspend payment of all benefits in excess of the guarantee level.
- PBGC MEP-insured participants and plans, year-end 2003:
  - Total insured participants: 9.8 million.
  - Active insured participants: 4.9 million.
  - Multiemployer plans: 1,623.
- Financial position of the multiemployer program as of end of fiscal year 2004, ending Sept. 30, 2004:
  - Total assets held by the multiemployer program: $1.1 billion.
  - Present value of future benefits: $3 million.
  - Nonrecoverable future financial assistance (PBGC assistance to insolvent MEP plans, technically considered a loan but unlikely to be repaid), present value: $1.3 billion.
  - Net fiscal position of the multiemployer program: a deficit of $236 million.
- Insurance activity as of end of fiscal year 2004, ending Sept. 30, 2004:
  - Benefits paid: $1 million.
  - Total participants in plans trusteeed and planning trusteeship by PBGC: 100,000.
  - Number of multiemployer participants receiving benefits from the PBGC: 320.
  - Plans trusteeed and planning trusteeship by PBGC: 27.
- The Consolidated Appropriations Act of 2001, signed into law on Dec. 21, 2000, increased the benefit guarantee in multiemployer plans to the product of a participant’s years of service multiplied by the sum of (1) 100 percent of the first $11 of the monthly benefit accrual rate and (2) 75 percent of the next $33 of the accrual rate. For someone with 30 years of service, this raised the guaranteed limit to $12,870.
For More Information

- PBGC Web sites and documents:
  - PBGC Fact Sheets: [www.pbgc.gov/publications/factshts/default.htm](http://www.pbgc.gov/publications/factshts/default.htm)

- U.S. Government Accountability Office (GAO):

- Congressional Research Service (CRS):


Source: Congressional Research Service report RL32702, based on PBGC 2004 Performance and Accountability Report, PBGC 2003 and 2002 annual reports. Note: Due to rounding, assets minus liabilities may not equal net position.

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### Figure 1

**PBGC Single-Employer Program Funded Status**

($ billions)

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<tr>
<td>Assets</td>
<td>$39.0</td>
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<td>Net Position</td>
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<td>Benefit Payments for Prior Fiscal Year</td>
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<td>Reasonably Possible Exposure</td>
<td>96.0</td>
<td>83.9</td>
<td>35.4</td>
<td>10.9</td>
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</table>

Sources: Congressional Research Service report RL32702, based on PBGC 2004 Performance and Accountability Report, PBGC 2003 and 2002 annual reports. Note: Due to rounding, assets minus liabilities may not equal net position.
Figure 2
Defined Benefit Pensions: Active Participant Trends
(Single-Employer Pensions)

Figure 2 shows the trend in the number of active participants in single-employer defined benefit pension plans—the number of currently active (as opposed to retired) workers who will be eligible to receive a pension benefit when they retire. From a high of 22.2 million workers in 1988, the number of active participants in DB pensions is estimated to have declined to 17.2 million in 2003. This figure illustrates the shrinking number of current private-sector workers who will be eligible to receive a “traditional” defined benefit pension when they retire.

Figure 3 shows the trends in both single- and multiemployer defined benefit pension plans. Multiemployer pension plans, which almost exclusively cover union workers, peaked at 2,244 in 1980 and declined gradually to 1,587 in 2004. Single-employer plans, which generally cover nonunion workers, declined sharply from 112,208 in 1985 to 29,651 in 2004. Among single-employer plans, this reflects the termination of many small- and medium-sized plans; most of the single-employer defined benefit pension plans that remain today are very large.