

United States Government Accountability Office

A LOOK AT



OUR
FUTURE:
Retirement Income
Security and the PBGC

National Academy
of Social Insurance
Policy Research
Conference



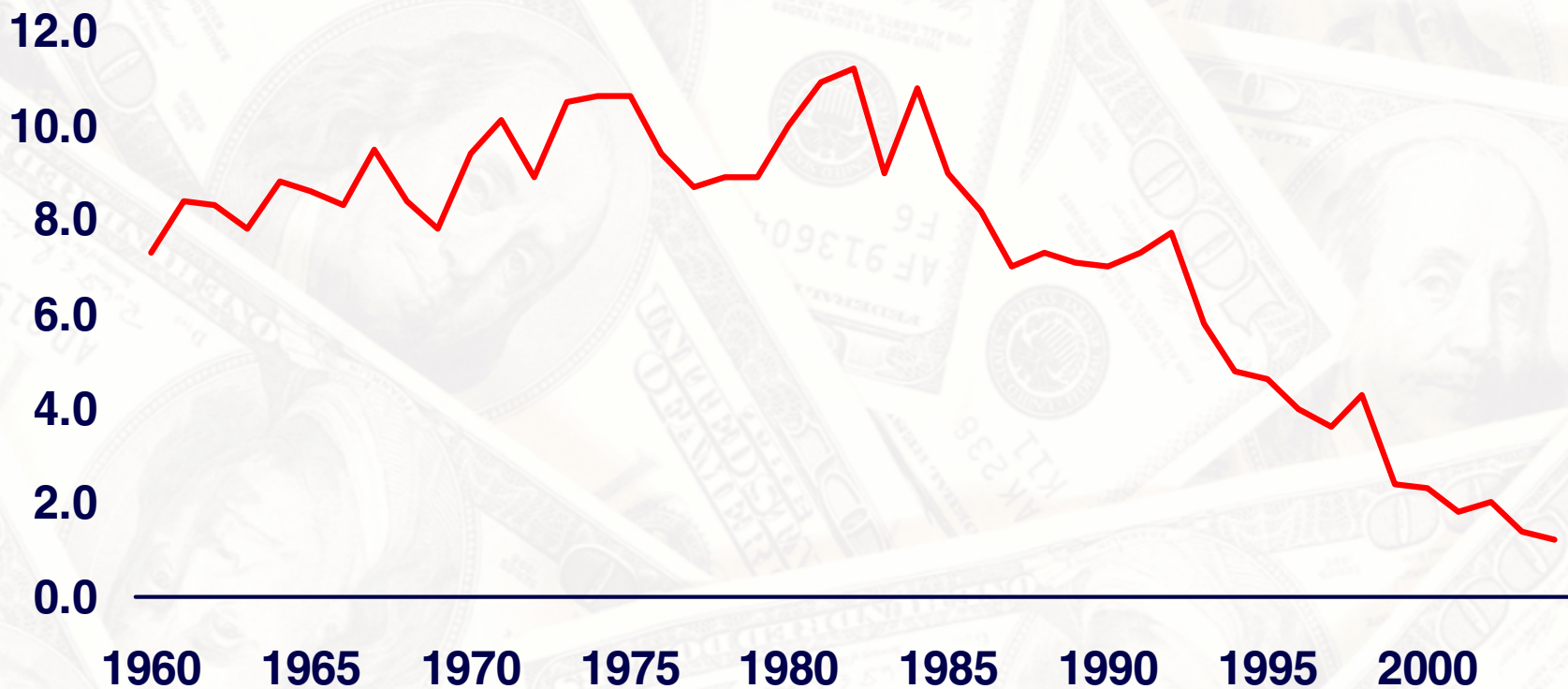
The Honorable David M. Walker
Comptroller General of the United States
January 20, 2006

Key Elements for Economic Security in Retirement

- **Adequate retirement income**
 - Social Security
 - Pensions
 - Savings
 - Earnings from continued employment (e.g., part-time)
- **Affordable health care**
 - Medicare
 - Retiree health care
- **Long-term care (a hybrid)**
- **Major Players**
 - Employers
 - Government
 - Individuals
 - Family
 - Community

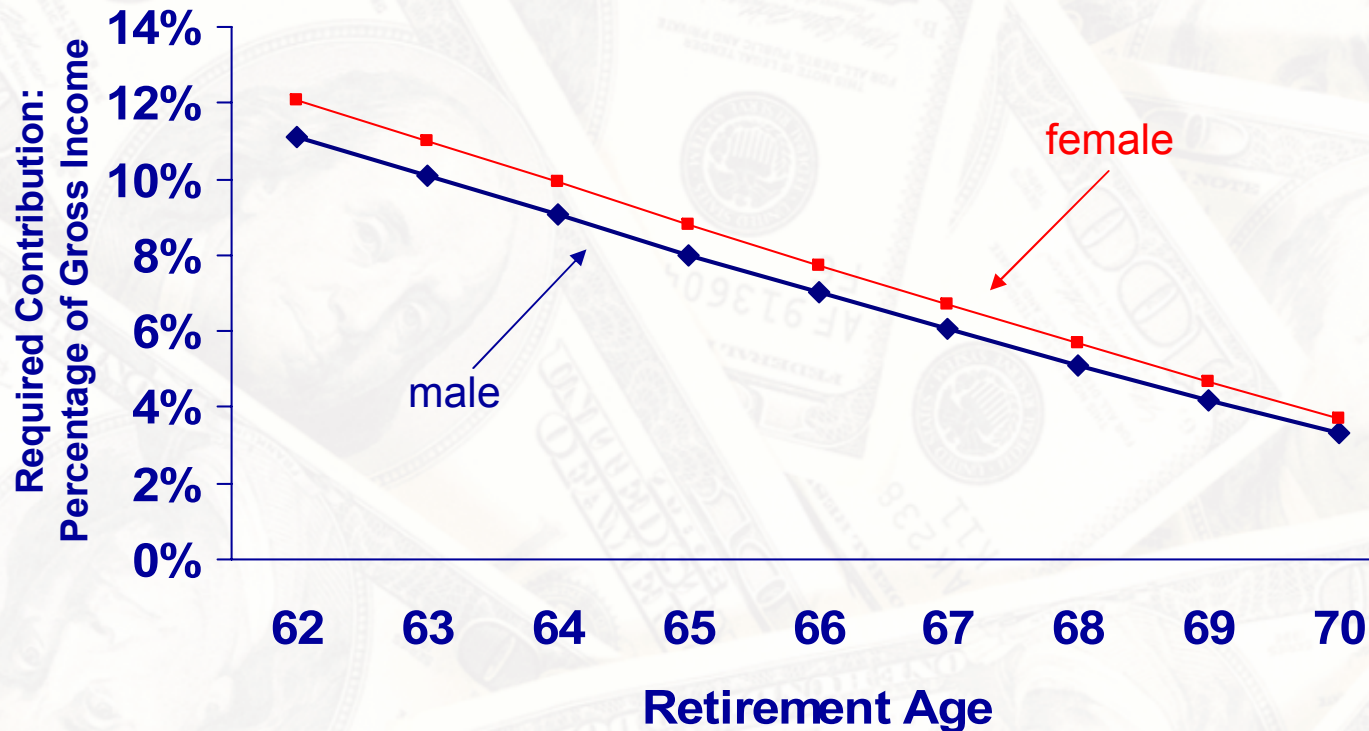
Personal Saving Rate Has Declined

Percent of disposable personal income



Source: Bureau of Economic Analysis, Department of Commerce.

Annual Saving Required for a 35-Year Old, with Social Security



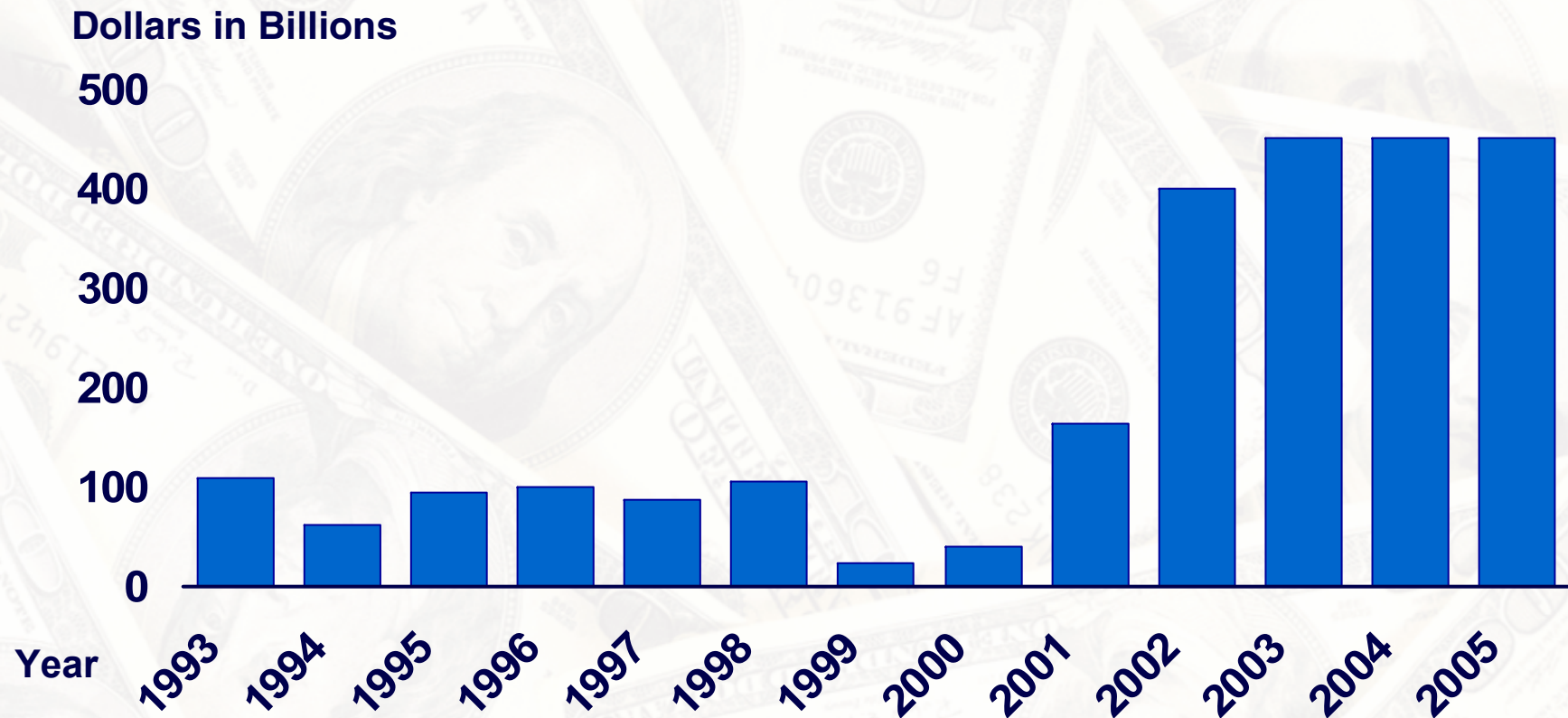
Source: GAO analysis, based on Social Security Administration data.

Note: The chart shows the percentage of gross salary 35-year old male and female earning an average wage' in 2005 would need to withhold so that the individual would accumulate funds sufficient, along with scheduled social security benefits, to provide retirement income equal to 75% of his or her pre-retirement income. The projections are based on economic assumptions from the 2005 Social Security Trustees Report for inflation (2.8%), real wage growth (1.1%), real interest rate (3%), and nominal interest rate (5.8%).

Pension System Faces Variety of Challenges

- Significant coverage gaps and pre-retirement leakage
- Long term decline in the number of DB plans and active participants and change in the nature of DB plans
- Recent DB freezes and retiree health plan limitations are likely to accelerate due to prospective changes in current accounting for pension and post-employment benefits
- Recent and prospective large plan terminations by bankrupt sponsors have placed Pension Benefit Guaranty Corporation (PBGC), the federal agency insuring benefits, in financial jeopardy
 - Stock market, interest rate declines this decade have worsened overall plan funding
 - Demographics, global competition (steel, auto), industry deregulation restructuring (airlines) have contributed to both plan and corporate weakness
- Plan funding rules have proven to be inadequate
- Certain PBGC premium insurance issues need to be reviewed
- Selected other issues also require attention (e.g., lump sums, bankruptcy laws)

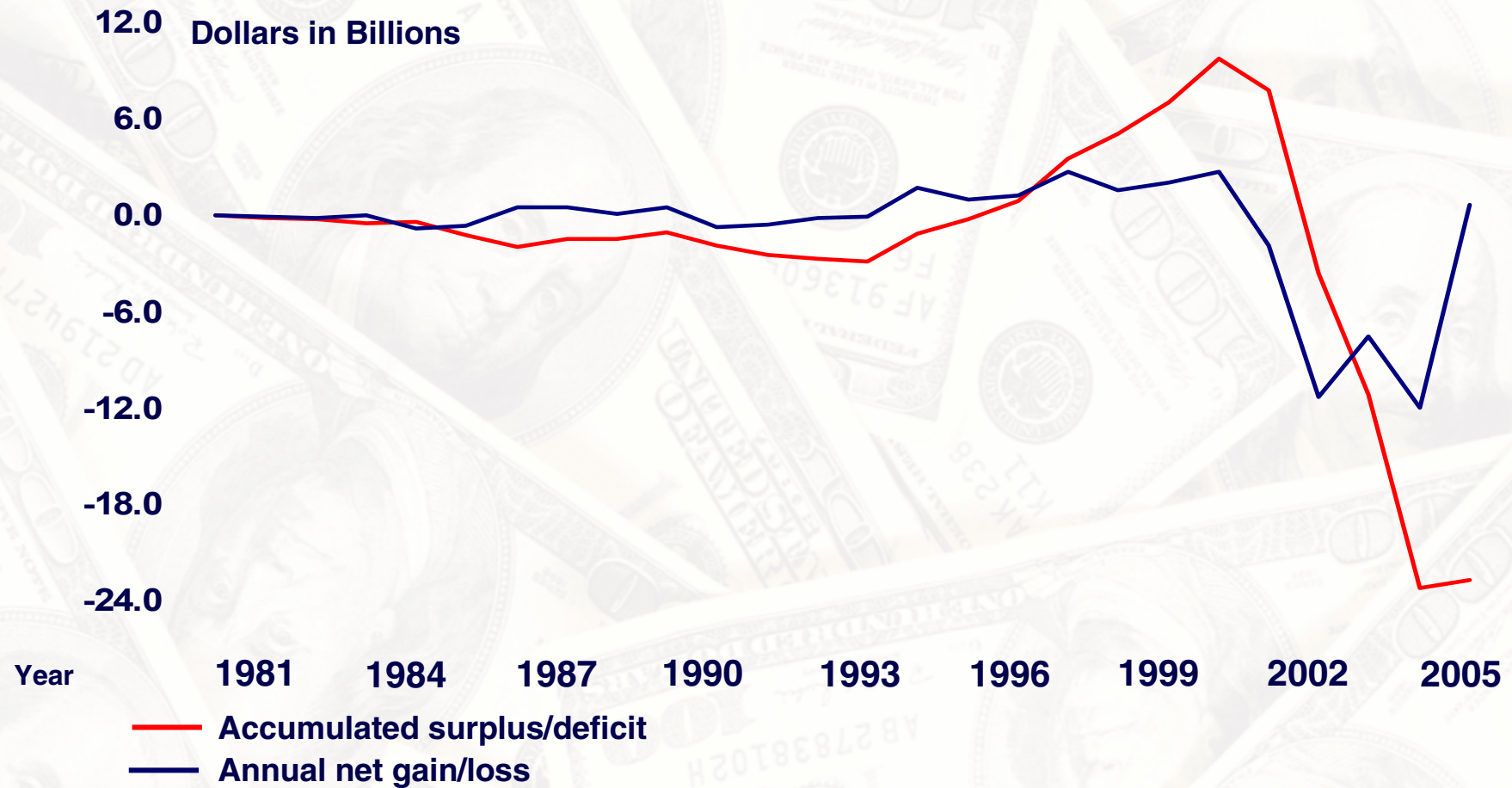
Total Underfunding among All PBGC-Insured Single-Employer DB Plans



Source: Pension Benefit Guaranty Corporation.

Note: Totals include data for single-employer plans that are speculatively rated and considered “reasonably possible” for termination. 2005 data are estimates as of September 30, 2005.

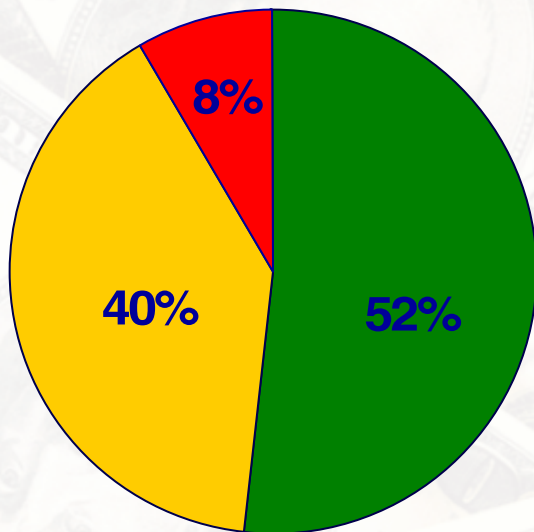
PBGC's Net Accumulated Deficit for Single-Employer Plans Was Nearly \$23 Billion in 2005



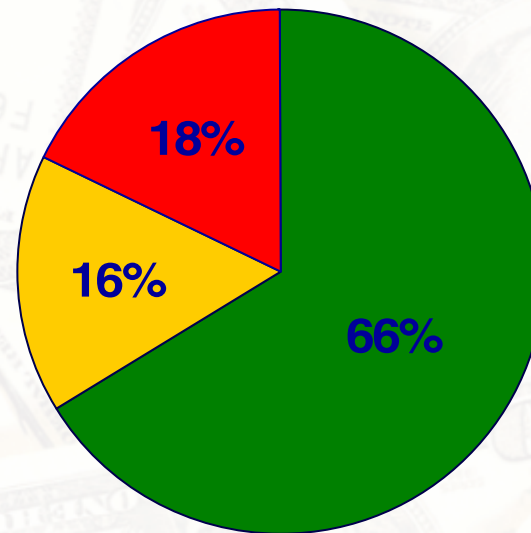
Source: Pension Benefit Guaranty Corporation.

PBGC Claims and Exposures by Principle Industry Category


PBGC Claims by Industry,
FY 1975-2005
Total = \$31.7 billion



Reasonably Possible
Exposure, FY 2005
Total = \$108 billion



 **Transportation**
(e.g. airlines)

 **Manufacturing**
(e.g. steel, heavy equipment)

 **Other**
(e.g. construction, services)

Source: Pension Benefit Guaranty Corporation. PBGC data for claims based on preliminary data.

Industry Claims and Exposures: Common Elements

- Globalization
- Deregulation
- Legacy Costs

Several Reforms Might Improve Plan Funding and Reduce the Risks to PBGC's Long-term Viability

- Strengthen funding rules applicable to poorly funded plans
- Consider additional tax deductible funding flexibility
- Limit lump sums in underfunded plans
- Modify program guarantees (e.g., phase-in rules)
- Raise and modify pension premiums (e.g., nature of risk related premiums)
- Eliminate floor/offset arrangements with significant investment concentrations in employer securities
- Increase transparency of current plan funding information
- Modify bankruptcy laws
- Address issues surrounding certain hybrid plans (e.g., cash balance plans)
- Consider whether to address industrial restructuring costs/losses differently than normal PBGC losses

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