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Federal Pension Insurer Faces a "Perfect Storm" of Stock Declines, Low Interest Rates and Pension Plan Terminations

Actuaries Say PBGC Strong Enough to Weather the Storm

(Washington, D.C. - January 30, 2003) Ron Gebhardtsbauer, senior pension fellow for the American Academy of Actuaries, said today that the federal agency that insures private pension plans is "not in crisis, but is facing the 'perfect storm' of declines in the stock market, low interest rates and an increase in large bankruptcies." He was commenting on the annual report of the Pension Benefit Guaranty Corporation (PBGC), released today, which shows the agency has a \$3.6 billion deficit. He said that the PBGC lost more than \$600 million in assets in the last two years due to the decline in the financial markets. The report states that the agency's liabilities rose by \$11 billion in 2002: \$5 billion due to pension plan terminations and lower interest rates (which raise pension costs), and another \$6 billion in "probable" future plan terminations.

"This is not a crisis," Gebhardtsbauer cautioned. The PBGC has more than \$25 billion in assets, and it pays out about \$2 billion in pension checks to retirees annually. "Retirees do not have to worry about the checks stopping — there is still more than enough money for the PBGC to keep its promises to retirees."

The PBGC "might have a major long-term challenge" if a string of major new bankruptcies resulted in additional pension plans being terminated. "The airline industry, for example, is facing serious financial problems," Gebhardtsbauer added.

He raised another potential long-term concern for the PBGC: a decline in revenues due to fewer defined benefit plans. The PBGC generates revenue by charging pension plans a premium. "The PBGC has to be careful that in trying to solve its deficit problem it doesn't invoke the 'law of unintended consequences' and create an even bigger problem by discouraging companies from having a traditional pension plan," he added.

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Ron Gebhardtsbauer is available for an interview 9:00 a.m. to 6:00 p.m. ET.

The American Academy of Actuaries is the nonpartisan public policy organization for the U.S. actuarial profession. The Academy provides independent analysis to elected officials and regulators, maintains professional standards for all actuaries, and communicates the value of actuarial work to the media and public.