

The Actuarial Profession
making financial sense of the future



Pensions, Benefits and Social Security Colloquium 2011

Dave Gustafson



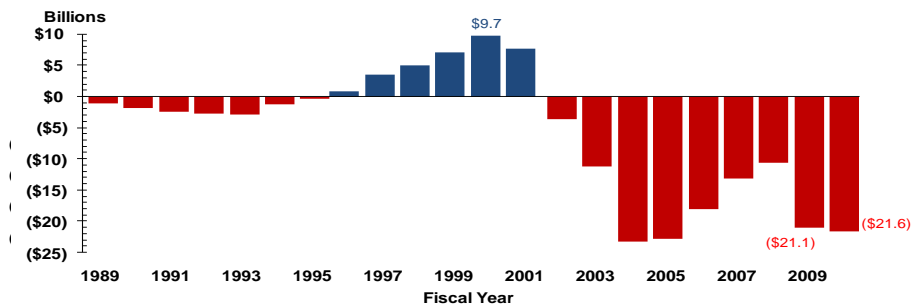
Guarantee Funds The PBGC Experience

25-27 September 2011

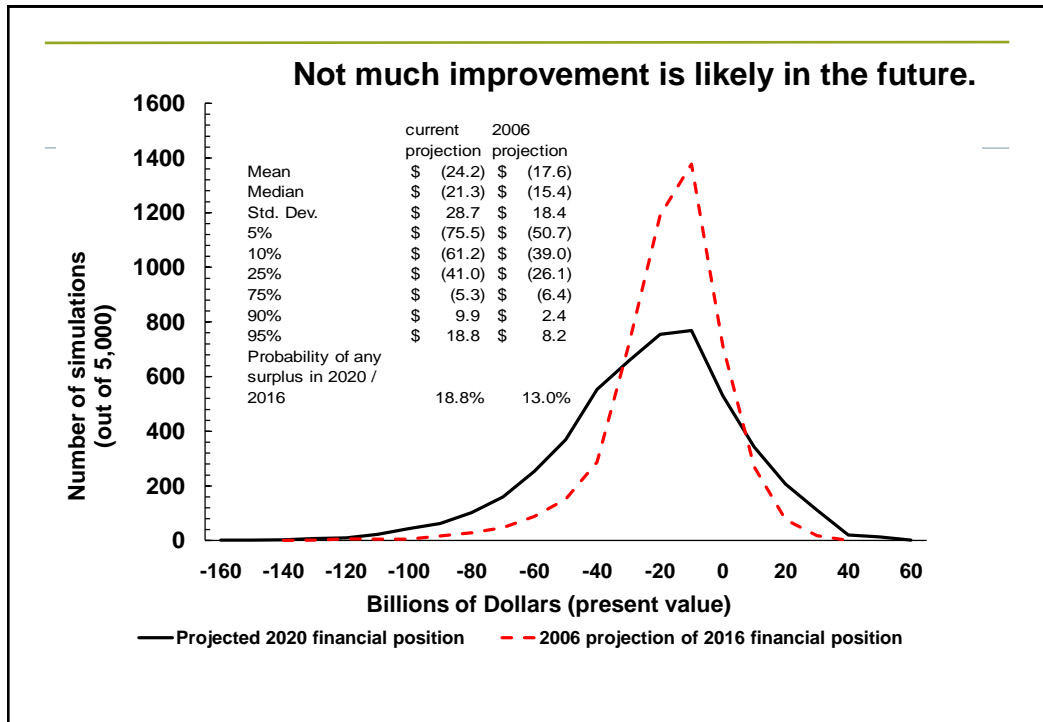
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PBGC's financial condition has deteriorated significantly during the last decade.

*Single-Employer Program
FY 1989 through FY 2010*

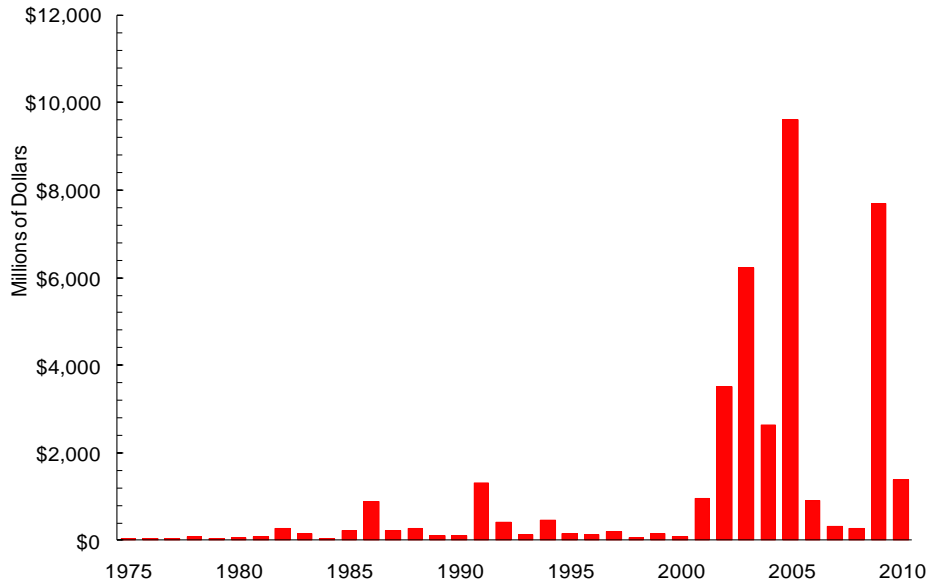


Data does not include restored LTV plans in 1986



| Program Comparison | | |
|------------------------------------|-----------------|-----------------|
| [\$ in Millions – As of 9/30/2010] | | |
| | Single-Employer | Multiemployer |
| Assets | \$ 77,827 | \$ 1,628 |
| Liabilities | \$ 99,421 | \$ 3,064 |
| Net Position | (\$ 21,594) | (\$ 1,436) |
| Premium Income | \$ 2,231 | \$ 93 |
| Benefits Paid | \$ 5,500 | \$ 97 |
| Participants Insured | 33.8 million | 10.4 million |
| Plans Insured | 26,010 | 1,500 |
| Maximum Guarantee | \$54,000 | \$12,870 |
| Underfunding (Estimates) | > \$500 billion | > \$200 billion |

PBGC's claim experience has fluctuated dramatically.



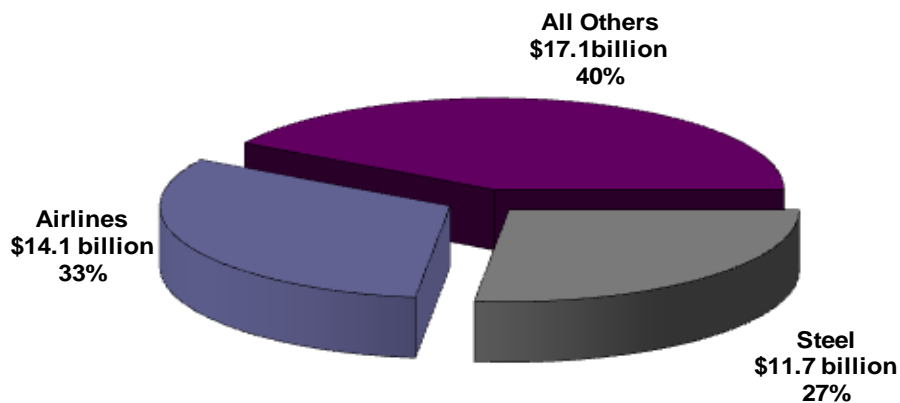
The top 10 firms account for over 60% of the amount of PBGC's claims for FY 1975 – FY 2010.

| Top 10 Firms | Fiscal Year of Plan Termination | Claims (Billions \$) | Covered Participants | Funded Ratio* |
|------------------------|---------------------------------|----------------------|----------------------|---------------|
| United Airlines | 2005 | \$ 7.3 | 124,000 | 49% |
| <i>Delphi</i> | 2009 | 6.4 | 69,000 | 47% |
| Bethlehem Steel | 2003 | 3.7 | 91,300 | 49% |
| US Airways | 2003, 2005 | 2.8 | 55,800 | 52% |
| LTV Steel | 2002, 2003, 2004 | 2.1 | 83,100 | 52% |
| <i>Delta Air Lines</i> | 2006 | 1.7 | 13,300 | 50% |
| National Steel | 2003 | 1.3 | 33,700 | 52% |
| Pan American Air | 1991, 1992 | 0.8 | 32,000 | 31% |
| Trans World Airlines | 2001 | 0.7 | 32,300 | 60% |
| Weirton Steel | 2004 | 0.6 | 9,400 | 46% |

* Funded ratio at termination for PBGC benefits; participants may lose additional benefits not covered by PBGC

PBGC claims have been concentrated in two industries, Airlines and Steel.

FY 1975 - 2010



Note: Historically, Steel has represented less than 3% of participants covered by PBGC and Airlines less than 2%.

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Our exposure to claims from plans of financially troubled employers is at historically high levels.

(Dollars in Billions)

| Principal Industry Categories | FY 2009 | FY 2010 |
|---|----------------|-----------------|
| Manufacturing | \$ 101.3 | \$ 101.9 |
| Transportation, Communication & Utilities | 30.6 | 30.2 |
| Services & Other | 13.3 | 15.4 |
| Wholesale and Retail Trade | 13.0 | 12.8 |
| Health Care | 5.0 | 4.0 |
| Agriculture, Mining & Construction | 2.5 | 2.7 |
| Finance, Insurance & Real Estate | 2.1 | 2.8 |
| Total | \$167.9 | \$ 169.7 |

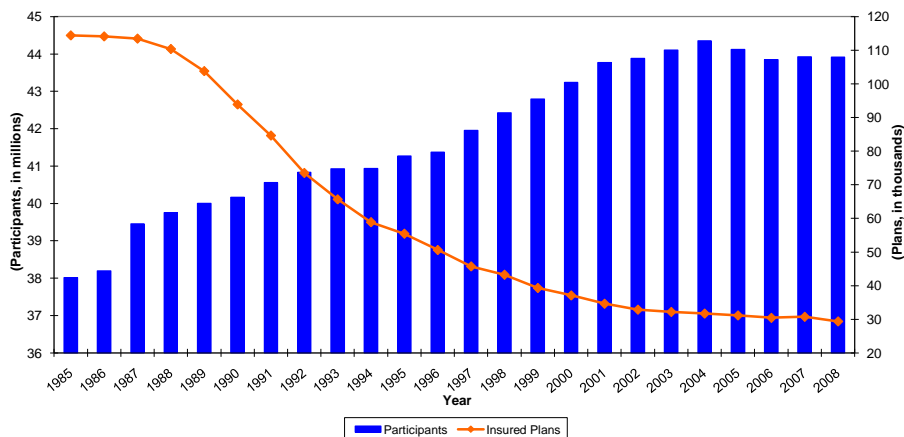
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The GAO's 2011 High Risk Report includes PBGC.

- “Long-term structural challenges are at the heart of PBGC’s difficulties. For example, **PBGC’s premium base has been eroding over times** as fewer sponsors are paying premiums for fewer participants.
- **Weaknesses remain, especially in the areas of governance** and strategic management. For example, PBGC’s current three-member board of directors cannot devote sufficient time to provide adequate policy direction and oversight.
- PBGC will likely **remain at risk from a premium rate structure that does not adequately reflect its financial exposure** and the threat of terminations of large underfunded plans.”

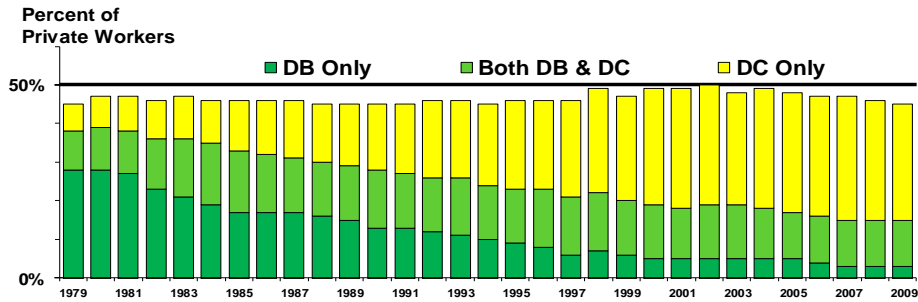
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The number of PBGC-insured plans has declined from 115,000 in 1985 to about 28,000.



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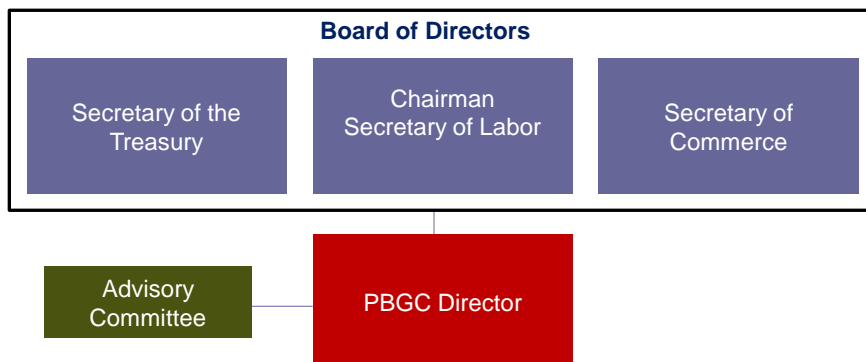
Most private workers do not have an employer-provided retirement plan. Most that do now have only a DC plan.



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Pension Benefit Guaranty Corporation

Governance Structure



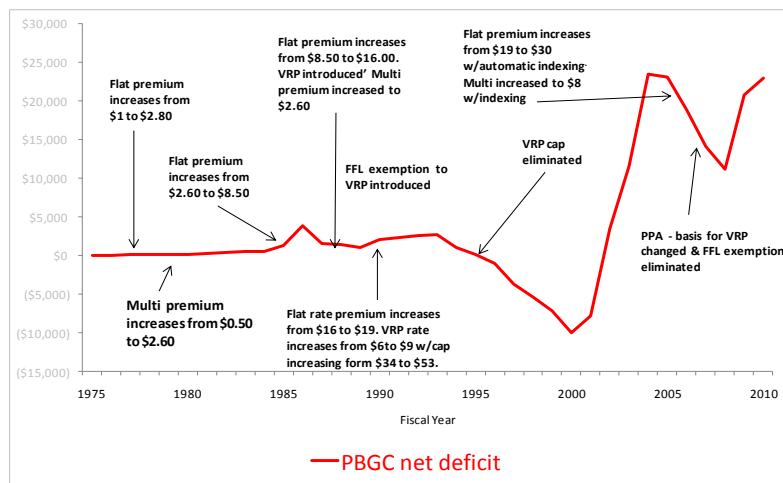
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PBGC's Statutory Purposes

- Insures the promised benefits of underfunded defined benefit plans of bankrupt employers
- Purposes under ERISA:
 - Assure timely and uninterrupted payment of benefits
 - **Maintain insurance premiums at lowest level necessary to meet obligations**
 - Encourage the growth of voluntary pension plans

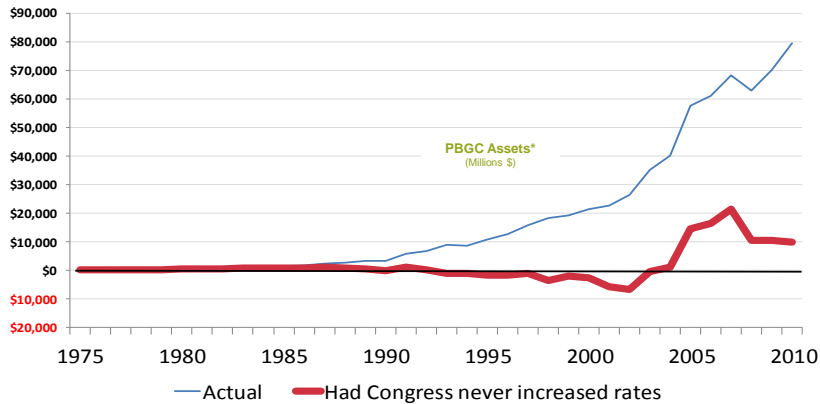
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Premiums have always been raised by the Congress to ensure PBGC can pay benefits without a taxpayer bailout.



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If premiums had not been raised, PBGC would have run out of assets twenty years ago.



* Includes both single-employer and multiemployer programs.

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The President's budget includes a \$16 billion premium increase and recommends that PBGC set future premiums.

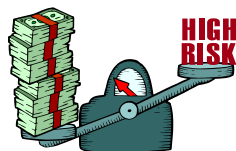
- Oversight



- Counter cyclical



- How to Target



- Effect on employers' willingness to have DB plans



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PBGC's investment policy has changed twice during the last several years.

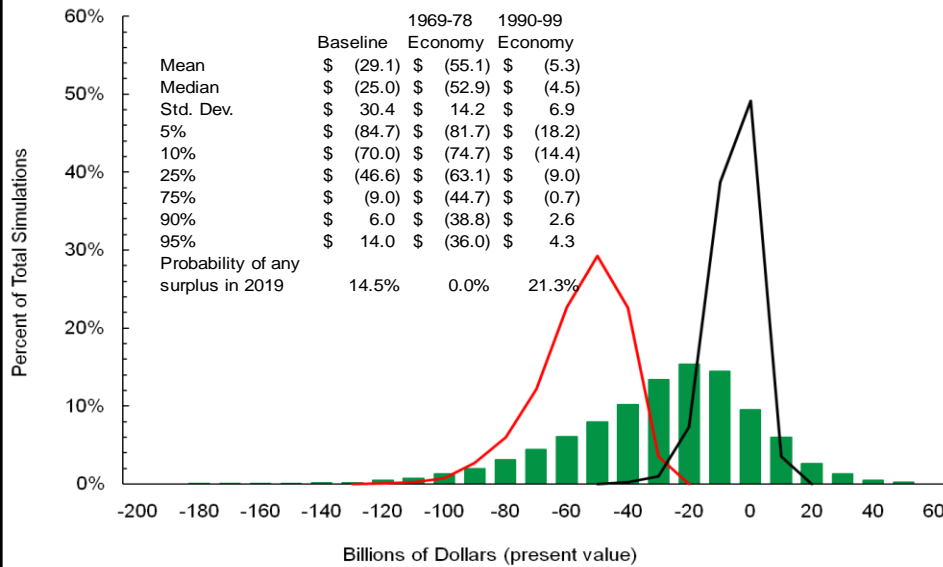
Asset Allocations

| <u>Asset Class</u> | <u>2008 Target</u> | <u>2011 Target</u> |
|---------------------------|---------------------------|---------------------------|
| Equities | 45% | 30% |
| Fixed Income | 45% | 70% |
| Alternatives | 10% | 0% |

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Distribution of PBGC's Projected 2019 Financial Position

Baseline Stochastic Economy Compared to Two Historic Economies



PBGC's Statutory Purposes

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Several factors affect employers' willingness to maintain defined benefit plans.

Cost (Un)predictability



Higher Cost



Accounting



Complex Regulations & Legislation

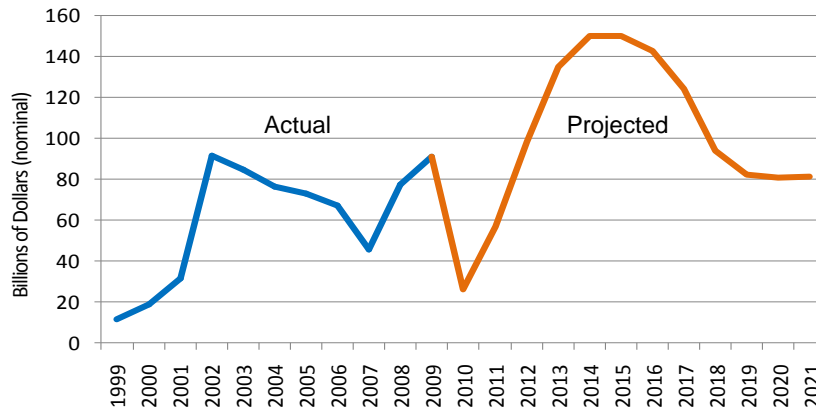


Employee Preference for DC Plans

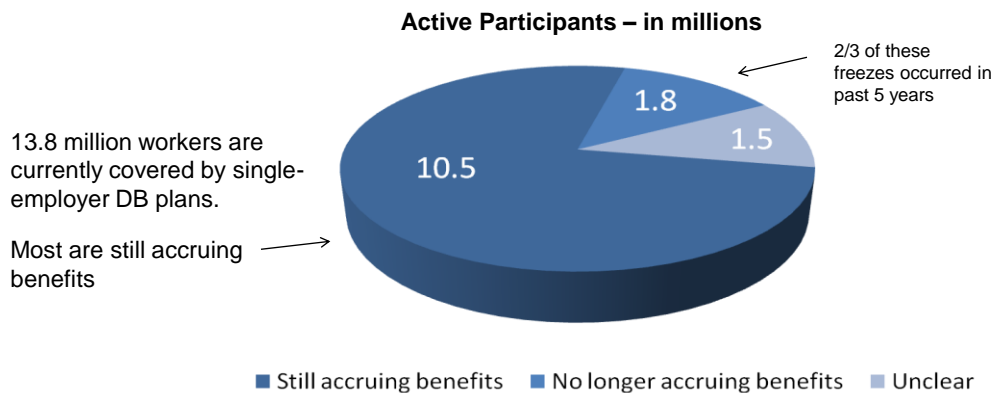


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Required minimum contributions for single-employer plans are likely to increase significantly during the coming years.



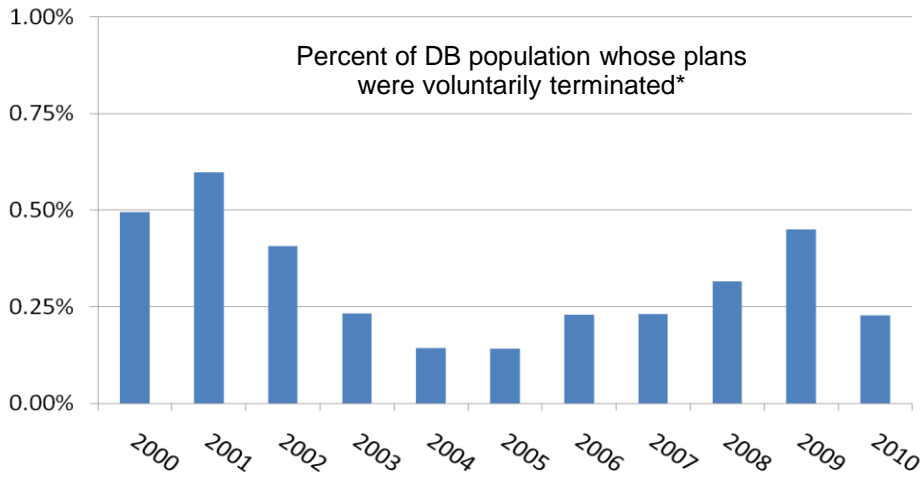
In private sector single-employer DB plans, more than 75% of workers are accruing benefits.



Unclear means participant is in a plan that is partially frozen (e.g., some, but not all, active participants are accruing benefits, all active participants are accruing partial benefits, etc.)

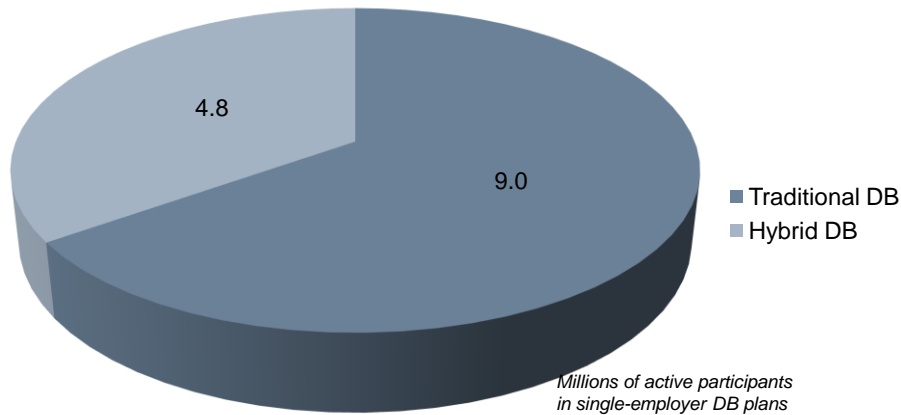
Source: Most recent PBGC premium filing. For most plans, data is as of the beginning of the 2010 plan year

Standard terminations affect less than 0.50% of single-employer DB participants each year.



* Excludes voluntary distress terminations

35% of workers in single-employer DB plans are in *hybrid* plans and the percentage is growing.



Source: Plan characteristic code reported on line 8a of Form 5500. Plans that are partially hybrid and partially traditional are reported as "Hybrid".

What's on the near term agenda?

- **International Cooperation**
 - **International Insolvency Insurers Meetings**
 - **PPF/TPR/PBGC MOU**
- **PIMS Handoff to Society of Actuaries**
- **Multiemployer Reports**
 - **Interagency Report to Congress on PPA ME Funding Rules**
 - **ME Quinquennial Report to Congress**