

## **PBGC DEFICIT: A NON-EVENT ON THE HORIZON**

**PBGC's current deficit.** In 2010, the PBGC reported that it had a deficit of \$23 billion as of September 30, 2010. Next week, the PBGC is expected to announce a larger deficit as of September 30, 2011. This announcement will be a non-event for the reasons noted below.

- The PBGC's entire deficit is a product of government-created artificially low interest rates, as explained in an article by Ken Porter, a leading actuary with over 30 years of experience, that was published by BNA on September 14, 2011.
  - Almost 80% of the PBGC's deficit is directly attributable to the decline in interest rates since September 30, 2008. That date coincides with the beginning of the market decline and the government reducing interest rates to stimulate the economy.
  - The remaining 20% of the PBGC's deficit is attributable to the fact that PBGC uses an interest rate that is materially lower than interest rates required by the Financial Accounting Standards Board ("FASB"), the International Accounting Standards Board ("IASB"), and the Pension Protection Act of 2006.
- These effects occur because the lower the interest rate, the higher the PBGC's liabilities appear. However, today's low interest rates have no relevance to the PBGC's ability to pay benefits in the future.
- Next week, when PBGC announces a "deficit" larger than \$23 billion, the question should be: how much, if any, of that deficit is real and how much is simply the product of today's even lower interest rates? Like the 2010 numbers, most if not all of the new deficit will simply be the product of government-created artificially low interest rates.
- Similarly, PBGC may well announce next week that company pension plans are severely underfunded on a national basis. That too is just a product of government-created artificially low interest rates. If historically typical interest rates were in effect, the picture of company pension plans would be entirely different. So again, artificially low interest rates are creating numbers that have no basis in reality and have no effect on plans' ability to pay benefits.
- It is critical to job retention and retirement security that policymakers and members of the media ask the questions needed to identify what numbers are real and what numbers are the product of artificially low interest rates. Jobs and retirement security will turn on whether those questions are asked.

**PBGC's projected 2020 deficit.** On November 10, 2011, the PBGC announced its projections of its 2020 deficit. Naturally, in light of its continued use of artificially low interest rates, the PBGC projected that as of 2020, it will have a slightly larger single-employer plan deficit. But please note the following key points:

- PBGC concluded, based on 5,000 simulations, that the chances of the single employer program running out of money by 2020 were **zero**. As PBGC stated in its most recent Annual Report "[s]ince our obligations are paid out over decades, we have more than sufficient funds to pay benefits for the foreseeable future."
- In a majority of the 5,000 simulations, PBGC's position improved over the next 10 years. So even using its extremely unfavorable interest rate assumptions, PBGC projects that the financial condition of its single employer program will likely improve over the next 10 years.

**American Benefits Council**

**Business Roundtable**

**The ERISA Industry Committee**

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