



# AMERICAN BENEFITS COUNCIL

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## TEN REASONS TO DOUBT PBGC'S REPORTED DEFICIT

1. Almost 80% of the Pension Benefit Guaranty Corporation (PBGC) self-reported deficit is directly attributable to the current historically low interest rates. These low rates are the result of a prudent national policy to help stimulate the economy. However, *low* interest rates translate into a calculation of *higher* pension liabilities. Therefore, when interest rates rise in the future, that artificially created deficit will shrink, if not evaporate.
2. Much, if not all, of the remaining 20% of the deficit results from PBGC using an interest rate that is materially lower than the rates employer-sponsored plans are required to use by the Financial Accounting Standards Board (FASB) and pursuant to the Pension Protection Act of 2006. There is no logic for the government to use one rate, and to require private employers to use another.
3. A point-in-time picture of a long term obligation like pension payments inevitably gives a skewed perspective. Today's \$26 billion "deficit" is no more relevant to the PBGC's ability to pay benefits than was its \$10 billion "surplus" a decade ago when interest rates were high and the stock market was booming.
4. PBGC determines its deficit based on very aggressive assumptions that it uses in the context of "distress" plan terminations and in its litigation strategy with employers. These assumptions increase PBGC's claims against employers and minimize the benefits it is required to pay retirees.
5. Many elements of PBGC's deficit calculation methodology are plainly backwards, such as the assumption that the agency purchases annuities for its beneficiaries when it does no such thing. This artificially inflates the PBGC's apparent deficit because, in fact, the PBGC pays benefits as if it were an ongoing pension plan, just like private employers do.

6. Other elements of PBGC's deficit calculation are shrouded in secrecy; such as how its annuity survey and modeling are conducted. Congress has never examined why PBGC uses certain faulty assumptions, nor has PBGC explained other assumptions that are not transparent to either lawmakers or to the agency's customers – the private employers whose premiums support the agency.
7. The exaggerated PBGC deficit has prompted fears of a possible "taxpayer bailout." This has helped generate congressional support for dramatically higher premiums. But PBGC's obligation is not at all like the one borne by the Federal Deposit Insurance Corporation. When a bank fails, depositors may immediately get their money back. When PBGC takes over a plan, current and future retirees cannot demand their entire lifetime pension all at once. Rather, the benefits will be paid over decades into the future, through numerous economic cycles with rising and falling interest rates.
8. Even if the PBGC's deficit were accurate, it still would not be relevant to the agency's ability to pay promised benefits far into the future. To illustrate the point, consider this: the Federal government paid out its last Civil War widow's pension in 2003. Would it have made any sense to judge the government's ability to pay those pensions into the 21st Century by looking at its financial situation or prevailing interest rates in the years following the Civil War when that pension program was developed? Of course not.
9. In November 2011, PBGC [announced projections](#) of its deficit in 2020. The agency concluded, based on 5,000 simulations, that the chances of the single-employer insurance guaranty program running out of money in 2020 were zero. Moreover, in a majority of the 5,000 simulations, PBGC's position improved over the next ten years. So even using its extremely unfavorable assumptions, PBGC concedes that the financial condition of its single-employer program will likely improve over the next decade.
10. Unfortunately, an overstated deficit can be used to justify PBGC's request for Congress to approve billions of dollars in additional premiums and to give the agency unilateral authority to set its own premiums in the future. By contrast, it is not in employers' interest to understate the deficit since they – not the public – face the prospects of higher premiums when other companies impose liabilities on the PBGC. Clearly, employers – the PBGC's customers – have the utmost interest in the agency being financially stable and able to meet its financial obligations.