



AMERICAN BENEFITS COUNCIL

November 12, 2012

PBGC DEFICIT: A NON-EVENT ON THE HORIZON

Last year, the PBGC reported that it had a deficit of \$26 billion as of September 30, 2011. This month, the PBGC is expected to announce a larger deficit as of September 30, 2012. **This announcement will be a non-event** for the reasons noted below:

The dramatic drop in interest rates over the last 12 months will have the temporary effect of making PBGC's liabilities as of September 30, 2012 appear far greater than they were last year and greater than they really are, thus creating the record deficit.

In fact, **the PBGC's entire deficit is a product of government-depressed interest rates**, as explained in a 2011 monograph¹ by Ken Porter, a leading actuary with over 30 years of experience. Since interest rates have only dropped since the article was written, Mr. Porter's study is at least as valid today as it was when it was published just over a year ago.

- **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.**

¹ Kenneth W. Porter, *Proposed PBGC Changes – A Reality Check*, Bureau of National Affairs (BNA) Pension Benefits Daily, September 14, 2011.

When the PBGC announces a “deficit” larger than \$26 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 recent PBGC deficit numbers, it is expected that **the new deficit will simply be the product of government-created low interest rates.**

Similarly, PBGC may well announce that company pension plans are severely underfunded on a national basis. That too is just a product of government-depressed interest rates. If historically normal 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 the reality of the financial markets and have no effect on plans’ ability to pay benefits.**

It is critical to job retention and retirement security that policymakers, media and the public 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.