



Pension Benefit Guarantee Corporation (PBGC) Prospects amid Recession

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It would not be much of an exaggeration to say that *every* segment of the economy has been adversely affected by the recession. This includes pension funds, which have suffered dramatic losses in value as a result of market declines. As the market value of pension funds plummet, the PBGC moves closer to the front of the pension-payer line. Here's a summary of interesting and disturbing information about this vital government agency:

What we know:

- As of September 30, 2008, PBGC had set aside about \$63 billion in assets to insure pension payments owed to 44 million workers and retirees. (Participants retiring at age 65 are currently guaranteed as much as \$54,000 per year for life.)
- These men and women participate in over 29,000 private defined benefit pension plans which presently pay insurance premiums to PBGC.
- The assets and premium payments are invested to meet future pension obligations including \$74 billion of pension plan liabilities for which PBGC is currently responsible.
- Nine of the ten largest pension plan terminations subject to PBGC coverage occurred since 2001. These included United Airlines, Bethlehem Steel and Kaiser Aluminum.
- Thirteen auto parts makers (including Delphi) have gone through bankruptcy enabling PBGC to reduce its deficit by almost \$3 billion.
- PBGC remains on the Government Accountability Office's "high risk" watch list for the seventh consecutive year.
- Some actuaries estimate that all U.S. private pension plans are unfunded by more than \$400 billion due to market declines since September 30, 2008.

What we don't know:

- How much the \$11 billion deficit has grown since September 30, 2008 given the tanking of the market and the discretion and fortune accorded PBGC in making investments.

- The fate of the General Motors (GM) pension plans. Whether or not GM will avoid bankruptcy is still a huge question. It is likely that the PBGC deficit would approach \$25 billion if it had to take over those plans. With that would come more headaches in terms of managing the GM pension assets.
- If and when deflation takes hold, both asset values and interest rates will plummet.
- If and when U.S. taxpayers will have to bail out PBGC, like the banks and savings and loan associations before them. Only time will tell.

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