NEWS RELEASE

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PBGC Deficit Estimate Stands on Firm Actuarial Ground

American Academy of Actuaries Urges New Sources of Revenue, Risk-Related Premiums

WASHINGTON – An analysis published today by the nonpartisan American Academy of Actuaries, the voice of actuaries on public policy in the United States, addresses various criticisms that the U.S. Pension Benefit Guaranty Corporation, the federal agency responsible for protecting pension benefits in private-sector defined benefit plans, did not use reasonable assumptions when calculating the deficit for its single-employer pension program.

The PBGC estimated the program's deficit at $29.1 billion as of Sept. 30, 2012, the last day of the federal government's fiscal 2012 year. The Academy's new issue brief, "Perspectives on the PBGC Single-Employer Deficit," examines assertions that the deficit calculation was and is flawed. Criticisms leveled at the reported deficit include: it is overstated and misleading; or understated and in need of additional premium increases on plans participating in the program.

"The Pension Committee of the American Academy of Actuaries believes the methods and assumptions used by the PBGC produce a reasonable representation of the PBGC's current obligation and deficit," according to the issue brief.

The PBGC's use of a 3.28 percent interest rate to estimate its obligations was central to the $29.1 billion deficit calculation. This rate stands at a reasonable level between the higher corporate bond yields used by private pension plans and lower Treasury securities rates considered to be "risk-free."

"Rising interest rates, as we are currently seeing, will lessen PBGC's deficit, but the deficit will remain substantial even with significantly higher rates," said Academy Senior Pension Fellow Donald Fuerst. The issue brief demonstrates the effect that rising interest rates will have on both the liabilities and the assets of the PBGC.

In addition to interest rates, a major risk exposure for PBGC's single-employer program is the almost $300 billion of potential liabilities concentrated in a few industries. A future economic downturn affecting these industries could sharply increase the program's deficit.

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"PBGC's single-employer deficit is real and significant, and requires attention," said Academy Vice President of Pensions, John Moore, "but there is not an immediate crisis and further premium increases at this time could be counterproductive." The issue brief examines the recent underwriting experience, the premium increases enacted in 2012, and the PBGC's ability to make all benefit payments for many years with current assets.

"Priority should be given to developing a premium structure that reflects the risks future terminations pose to the program, and new sources of income should be explored to address a deficit that is attributable to those plans that are no longer part of the system," added Moore. An issue brief published by the Academy's Pension Practice Council in April 2012, "Examining the PBGC Premium Structure," examined the PBGC premium structure and proposals to revise that structure.

Download the issue briefs and learn more about the Academy at www.actuary.org.

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