Pension Benefit Guaranty Corporation

September 24, 2003

(Room Document N°24, Session 4)

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Executive Director
Retirement Systems in the United States

Sources of Retirement Income (2000)

- Social Security: 38%
- Pensions from Employment: 18%
- Personal Savings: 18%
- Wages from Employment: 23%

Social Security

Pensions from Employment

Personal Savings

Wages from Employment
Retirement Systems in the United States

Social Security Program
(2000)

- 150 million workers contribute to program
- Over 50 million receive benefits
- 9 out of 10 retirees receive some level of benefits
- 64% of retirees receive over half of their total income from the program
Retirement Systems in the United States

Employer-based Pensions
(1998)

- Private workforce of 108 million (excludes self-employed)
- 52 million covered by an employer’s pension plan
- Defined Benefit and Defined Contribution plans
History of Defined Benefit Pensions in U.S.

1875: First corporate pension plan (American Express)

1949: Automobile and steel manufacturing pension plans

1963: Studebaker bankruptcy

1967: Senator Javits introduces Employee Retirement Income Security Act (ERISA)

1974: ERISA signed into law

1987: ERISA amended

1994: ERISA amended

2003: Current debate in Washington, DC
Regulating Private Pensions
Structure and Administration of ERISA

TITLE I:
Department of Labor
Protection of Employee Benefits

TITLE II:
Department of Treasury
Funding Rules

TITLE III:
Coordination Among Agencies

TITLE IV:
PBGCP Pension Insurance

ERISA
Regulating Private Pensions

Department of Labor

- Investment of Plan Assets
  - 10% limit on company securities
- Reporting and Disclosure to Participants
- Enforcement of Participant’s Rights
Regulating Private Pensions
Department of Treasury

• Minimum and Maximum Funding
• Qualifications for Tax-deductibility
• Non-Discrimination
Regulating Private Pensions

Pension Benefit Guaranty Corporation

- Insures the promised benefits of underfunded defined benefit plans of bankrupt employers
- 44 million insured workers in 33,000 defined benefit plans
- Currently paying $2.5 billion in annual benefits to 450,000 retirees in 3,200 terminated plans
PBGC Funding Sources

- Premiums
- Investment returns
- Assets from trusteed plans
- Recoveries from bankruptcy
Wage Benefit Trade-Off

Current Wages

Immediate Cost

No Cost Shifting

Future Pension Benefits

Deferred Cost

Potential Cost Shifting to PBGC
PBGC Net Position
Single-Employer Program
FY 1980 – FY 2002

Data does not include restored LTV plans in 1986
## Asset / Liability Watch
(Percentage Change)

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<th>'01</th>
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<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td>-2.5</td>
<td>-5.4</td>
<td>-11.4</td>
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<td><strong>LIABILITIES</strong></td>
<td>26.0</td>
<td>3.1</td>
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<td>-5.4</td>
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\[
\text{Assets - Liabilities} = (-28.5, -8.5, -30.9, 14.4)
\]

- 53.5%

Index:
- RL Cash 5%
- LB Aggregate 30%
- S&P 500 60%
- MSCI EAFE 5%
Total Underfunding
Insured Single-Employer Plans

PBGC estimates from Form 5500 and Section 4010 Filings
Current Debate in Washington, DC

- How should liabilities be measured?
- How should plans be funded?
- Implications of asset-liability mismatch?
- Should premiums be risk-based?