

EPIC EXPLAINER: The Pension Benefit Guaranty Corporation

The PBGC is a self-funded government agency that provides mandatory private pension insurance.

Background & History of the PBGC

The Pension Benefit Guaranty Corporation (PBGC) is a public agency, but unlike most other government agencies, it is self-funded and cannot use taxpayer dollars (see caveat on recent taxpayer bailouts below).

The PBGC was created as part of the 1974 Employee Retirement Income Security Act (ERISA). ERISA was enacted in the wake of the Studebaker auto plant closing in 1963, causing thousands of workers and retirees to lose promised pension benefits. The PBGC is effectively a federally mandated insurance program for all private pensions.

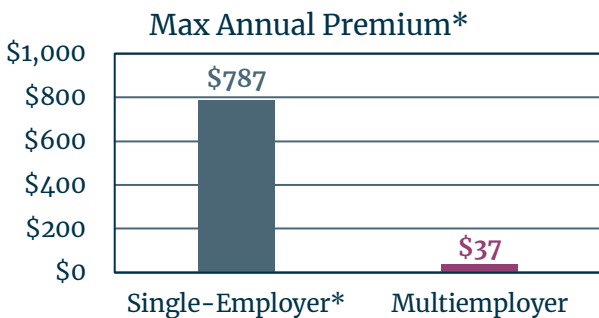
If an employer goes out of business and does not have enough money in its own pension plan to pay promised pension benefits, the PBGC steps in and pays all or a portion of promised benefits. How much the PBGC pays depends on the type of pension plan and the worker's years of service. **In total, the PBGC provides pension insurance to about 25,000 private pension plans covering roughly 34 million workers and retirees.**ⁱ

Unlike a typical insurance company, however, the PBGC cannot set its own terms and rates, but must rely on Congress to do so. Because the PBGC cannot respond in real time to changing conditions, the PBGC is not actually in control of the finances of its insurance programs. As a result, its financial soundness has varied significantly over time.

Two Separate Programs: Single-Employer and Multiemployer

PBGC's Single-Employer Program

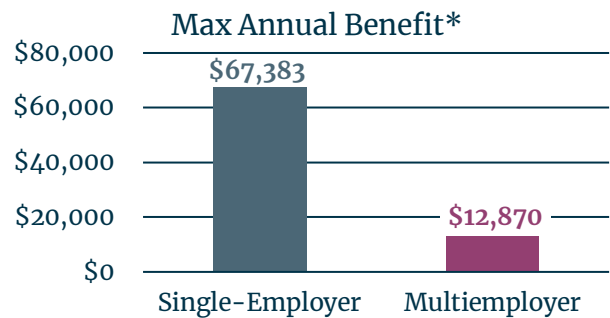
- For individual employer's pension plans.
- Charges flat and variable rate premiums.
- Insures about 23,800 pension plans covering 22.3 million participants.ⁱ
- Financially sound, \$36.6 net financial position in 2022.ⁱ



*Single employer premium equals flat rate of \$101 and variable rate of up to \$686.

PBGC's Multiemployer Program

- For union pensions that cover multiple employers in one industry like trucking.
- Charges single, flat-rate premium.
- Insures about 1,400 plans and 11.2 million participants.ⁱ
- Financially distressed, -\$63.7 billion net financial position in 2020.ⁱ



*Max single-employer benefit is for 62-yr. old and max multiemployer benefit is for worker with 30 years of tenure.

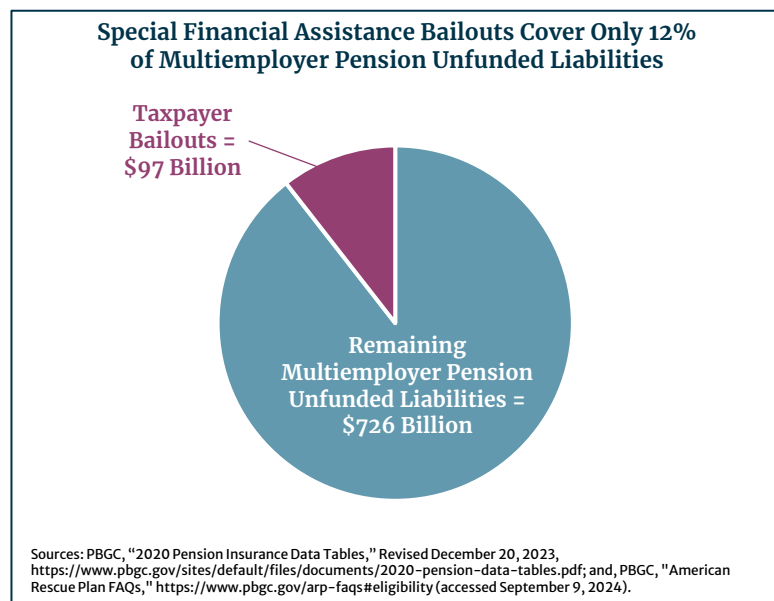


The PBGC’s multiemployer program, which covers union pension plans, was within five years of insolvency prior to a politically motivated and partisan taxpayer bailout—labeled “special financial assistance”—passed under the guise of COVID-19 relief in the American Rescue Plan Act. Those bailouts merely kicked the can down the road as the PBGC’s multiemployer program still has a net negative long-term financial position.ⁱⁱ

Are Taxpayers Now Responsible for the PBGC?

The PBGC is not supposed to affect anyone who does not have a private pension. However, the 2021 American Rescue Plan Act’s creation of a “Special Financial Assistance” program (administered through the PBGC’s multiemployer program) put taxpayers on the hook for an estimated \$97 billion of one-time bailout funds delivered directly to roughly 250 deeply troubled multiemployer pension plans covering 3 million participants.ⁱⁱⁱ

The one-time Special Financial Assistance did not change the PBGC’s future funding or premiums. Legally, the PBGC remains a self-funded agency. However, because the \$97 billion in Special Financial Assistance covers only 12 percent of multiemployer pension plans’ \$823 billion in total unfunded liabilities, the bailout incentivized even greater underfunding of multiemployer pension plans, and arguably set a precedent that increased the risk of additional future taxpayer bailouts.^{iv}



Maintaining the PBGC’s mission of protecting participants of private pension plans while not unjustly shifting the burden of bad actors onto taxpayers requires significant reforms to PBGC’s multiemployer pension program, transitioning it into true, risk-based insurance. Simultaneously, policymakers must provide equal protection for union and non-union pensioners by applying the same funding rules to union pension plans as currently apply to non-union pension plans.

ⁱ PBGC, “2021 Pension Insurance Data Tables,” February 12, 2024, <https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf> (accessed September 9, 2024).

ⁱⁱ PBGC, “Projections Report FY 2023,” <https://www.pbgc.gov/sites/default/files/documents/fy-2023-projections-report.pdf> (accessed September 3, 2024).

ⁱⁱⁱ PBGC, “American Rescue Plan Act FAQs,” <https://www.pbgc.gov/arp-faqs> (accessed September 9, 2024).

^{iv} PBGC, “2021 Pension Insurance Data Tables.”

