RECORD OF SOCIETY OF ACTUARIES
1993 VOL. 19 NO. 4B

ROLE OF THE PBGC

Moderator: DONALD J. SEGAL
Panelists: C. DAVID GUSTAFSON*
DAVID LANGER
Recorder: JUDY F. ANDERSON

This session will debate the merits of the PBGC concept. Discussion will include:

- How best to address the concept of retirement benefit security
- Is an S&L-type bailout imminent?
- Do PBGC premium increases spell doom for defined-benefit plans?
- Is there a way to privatize the PBGC risk?
- What should be the role of the PBGC upon insurer insolvency?
- Who should pay for underfunding of terminating plans?

MR. DONALD J. SEGAL: Dave Gustafson is manager of actuarial policy at the PBGC. As such, Dave determines actuarial policy for the corporation in such areas as legislative and regulatory development, claims determination, budgeting, and forecasting. He previously served as special assistant to the executive director and in this capacity had primary responsibility for the PBGC's efforts to develop, pass, and implement the Pension Protection Act of 1987.

During 1990, Mr. Gustafson completed a year-long congressional fellowship as a professional staffer for a member of the Senate Labor and Human Resources Committee. Prior to joining the PBGC in 1981, Mr. Gustafson was an officer and director of a Washington, D.C. actuarial consulting firm for nine years. He served pension and insurance company clients in the U.S. and Latin America.

Mr. Gustafson is an enrolled actuary, a member of the pension committee of the Actuarial Standards Board, and has a master's degree in actuarial sciences from the University of Michigan.

Dave Langer is a consulting actuary. He has his own company, David Langer Company, Inc. in New York. Dave is also a graduate of the University of Michigan. So we have a very strong representation from Michigan.

Dave is affiliated with the Conference of Consulting Actuaries, the Society of Actuaries, the Actuarial Society of Greater New York, the American Academy of Actuaries, and he is an enrolled actuary. He has spoken at many meetings, both within and outside of the actuarial profession, including meetings of the National Association of Manufacturers, the National Association of Accountants, and the International Foundation of Health, Welfare and Pension Plans.

MR. C. DAVID GUSTAFSON: I will talk about the administration's proposal to reform the PBGC and how we at the PBGC plan to go about it. I had hoped to be able to speak in much more detail. I had hoped that by this time, a bill would have been introduced in congress. As of now, this has not happened. It may happen, but it

* Mr. Gustafson, not a member of the Society, is Manager, Actuarial Policy, at the Pension Benefit Guaranty Corporation in Washington, Distrcit of Columbia.

has not happened. So we are operating under a regime in which we have to basically stick with some broad descriptions as opposed to the details of what is in the statutory language. In fact, we have taken that policy to the point where even the members of our task force do not have a copy of the statutory language. I apologize in advance if I am a little bit nebulous about some of the details, but that is a necessity.

I will first talk about the administration's Retirement Protection Act. The issues we address in this legislative proposal are essential to the strength of the defined-benefit system. Plan underfunding, and what to do about it, is an issue that we as pension professionals must squarely address.

Events during the last few years, particularly the failure of several large firms with underfunded plans, have demonstrated that some plans, covering many workers and retirees, are resting on a shaky foundation. Continued termination of these plans could diminish retirement income, place sizable financial demands on government, and erode a system that is central to our economic welfare.

When the new administration took office in January 1993, it was quickly faced with a series of ominous headlines about underfunding and the PBGC. On inauguration day, a headline in the *The New York Times* proclaimed: "U.S. Pension Agency Is In Deep Trouble, Economists Warn" and a subhead cautioned: "A Bailout May Be Needed." A few days later, a headline in the *The Wall Street Journal* read: "Risk To Retirees Rises As Firms Fail To Fund Pensions They Offer." One of the subheads predicted: "The Tab May Have To Be Paid By U.S. Guaranty Agency and Healthy Companies." At about the same time, *The Washington Post* reported that the General Accounting Office, the congressional watchdog agency, was warning about the increasing danger that underfunded pension plans could bring.

The people coming to Washington read these headlines. They were concerned, but they also wanted to be deliberate and careful in assessing the problem. Just how serious is the situation? What should be done? Is there enough time? There were many questions and they wanted answers.

One of the first steps that Secretary of Labor Robert Reich, Chairman of the PBGC Board of Directors, took was to establish a task force to study benefit protection and the PBGC. The task force included high-level pension people from the departments of Treasury and Labor and senior economic officials from the Office of Management and Budget and the National Economic Council.

The task force concluded that the defined-benefit pension system insured by the PBGC is generally strong and well funded. The vast majority of plans, more than 75%, are fully funded. For most of the 41 million workers and retirees covered by the PBGC's insurance, the future is bright.

Also, the PBGC itself is in no immediate danger. The pension benefits protected by the PBGC are safe. Although we have a deficit in our single-employer program, we also have substantial assets (more than $6 billion) and a positive cash flow. The PBGC will have more than sufficient revenues and assets on hand to make benefit payments as they come due for a long time.

An immediate danger? No. But a long-term problem, yes. Although underfunding is concentrated in a few industries, it is growing and persistent. Total underfunding went from $27 billion in 1987 to $38 billion in 1991. It is expected to climb to more than $45 billion when the 1992 figure is reported. Some of the most recent underfunding is attributable to a drop in interest rates, but it is clear that the current funding rules are not working.

The fact that a plan is underfunded does not mean that a participant's benefits are jeopardized. Too often, however, underfunding occurs in plans of troubled companies. In 1991, some $12 billion of underfunding was in plans sponsored by financially troubled companies. Given the current funding rules and the continued difficulties in heavy industries, underfunding in these plans is likely to grow in the coming years.

These underfunded plans also pose a long-term threat to participants and the PBGC. In recent years, large claims have outstripped premium revenue, leaving the PBGC with a long-term deficit of $2.7 billion at the end of 1992. Even though the deficit is not expected to go up for 1993, and may even decline, the long-term problem will remain. This ultimately could threaten the ability of the PBGC to safeguard pension benefits. The long-term problem is serious and should be addressed while it is still manageable.

Indeed, as the task force went about its work, it met with a broad range of practitioners and corporate and labor groups. All told, 77 people appeared before the task force. Virtually everyone stated that legislative reform is needed.

"Do it now," they told the task force, "while the problem is manageable and can be addressed in a reasonable way." As Marty Slate stated during recent congressional testimony, "The reforms may be summed up in one word: funding." The key is to increase funding so that benefit security for workers and retirees is ensured.

The major reform measures will strengthen the funding rules for underfunded plans, enhance PBGC compliance authority, increase premiums for those plans that pose the greatest risk, and broaden participant disclosure requirements. Fully funded plans will not be affected by our major reforms. Our primary reform is to strengthen the funding requirements for underfunded plans.

In 1974, ERISA established the concept that a plan must put money aside currently for benefit payments that are due in the future. But, by 1987, it was clear that pension underfunding continued to be a problem.

At that time, Congress addressed underfunding by enacting the deficit reduction contribution (DRC). This new minimum contribution requirement was intended to accelerate the funding of accrued benefits in underfunded plans. Despite the DRC, plan funding has not improved since 1987. Fully within the law, many employers have been able to make little or no pension contributions, even though their plans are severely underfunded.

We recently examined the contribution history of the plans of the companies with the largest underfunding. During the three-year period from 1989 to 1991, contributions to 40% of these plans did not even cover the interest on their liabilities. As Marty testified, "This is comparable to paying off only part of the interest on a credit card and none of the principal."

Our reforms would strengthen the DRC to accomplish what was intended in 1987. We propose three reforms that will accelerate funding and bring certainty that appropriate contributions are made to underfunded plans.

First is to speed up the basic contribution formula. The current formula does not require funding at a level sufficient to raise plan assets enough to cover participants' nonforfeitable benefits for most underfunded plans.

The proposals would have plans with funding ratios of up to 60%, rather than the current 35%, fund new current liability at a rate of 30% per year. The 30% rate will decline gradually to 20% as a plan moves toward full funding. The 20% compares with about 14% under current law. In severely underfunded plans, most new liabilities will be funded within five years. These contributions will minimize participant and PBGC exposure.

Second is to eliminate the current double counting of gains and losses arising from plan experience and from changes in actuarial assumptions. As you know, under current law the DRC is added to the funding standard account. Certain credits, however, are counted twice: in the calculation of both the DRC and the funding standard account. Thus, gains reduce the amount of a plan's underfunding under the DRC calculation. These same gains also, in effect, reduce the DRC again when the DRC becomes a charge to the funding standard account. The resulting "double counting" of these gains has produced some extended contribution holidays for some very underfunded plans. The proposal eliminates this double counting so that the DRC will operate as a "stand-alone" rule. In other words, a plan sponsor will be required to pay the larger of the DRC or the regular minimum funding requirement. The rule against double counting also applies to losses, thus producing a less volatile stream of contributions.

Third, the reforms require the use of specified interest rate and mortality assumptions to determine contributions. We propose to adjust the corridor for the interest rate assumption from the existing 90-110% of a four-year weighted average of the 30-year treasury rate to a corridor of 90-100%. The bill also specifies use of the 1983 Group Annuity Mortality (GAM 83) table required by most states for determining life company reserves for group annuities.

To mitigate the impact of this change, any increase in current liability attributable to years before 1995 that results from the use of the specified assumptions would be amortized over 12 years. In other words, it is treated as old current liability.

Further, in instances of large underfunding, IRS approval would be required for a change in the other assumptions used to calculate the DRC; for example, the expected retirement age and rate assumptions. This preapproval would be required only if an employer's plan (plus other plans of the employer or the employer's controlled group) was underfunded by more than $50 million, and only if the change in assumptions would decrease unfunded current liability by either: (1) more than $5 million and 5% of the plan's current liability before the change; or (2) $50 million or more.

In addition to these overall changes in the funding rules, the legislation includes a special solvency rule to ensure that severely underfunded plans are able to meet their benefit obligations. The solvency rule applies when a plan's liquid assets have been depleted to the extent that its ability to satisfy its current benefit obligations is endangered.

An employer sponsoring such a plan is required to maintain cash and marketable securities in the plan, equal to approximately three years' worth of benefit payments and other disbursements. Plans will not be permitted to pay lump sums or purchase annuities for their participants while a scheduled solvency payment is outstanding.

The funding proposals will be effective for plan years beginning in 1995. These new rules will pick up increases that were negotiated in 1993-94.

Accelerated funding is essential if plans are to be placed on a sound footing. However, the administration wants companies to be able to move forward with their business. Thus, the legislation contains a special transition rule to protect employers from extraordinary increases in their annual contributions for up to seven years.

Although the rule varies according to the plan's funding ratio, it generally limits the required annual increase in employer contributions to the amount necessary to achieve a 3%-point-per-year increase in the plan's funding ratio. Thus, under this rule, a plan with a 50% funding ratio as of the beginning of the 1995 plan year would need to increase this ratio to 53% in 1995 and 56% in 1996.

As you know, the 1987 rules do not apply to plans with fewer than 100 employees. This holds true for the reform proposals.

The reforms focus on strengthening the minimum funding requirements. The task force was also aware that certain provisions of current law discourage plan sponsors from contributing more than is required under the minimum funding rules. Where possible, the reforms provide relief from those provisions and try to take other steps as well to ease the burden on sponsors maintaining well-funded plans.

One of these measures is to provide excise tax relief for employers that run up against the 25% deduction cap under Section 404(a)(7) of the tax code because they maintain both a defined-contribution and defined-benefit plan. The reforms provide excise tax relief for nondeductible contributions consisting of employee-elective deferrals and employer-matching contributions, up to a limit of 6% of compensation.

In addition, the proposals offer excise tax relief to employers with small plans to fund their termination liabilities. These nondeductible contributions will not be subject to the excise tax, provided they do not cause plan assets to exceed the plan's current liability.

Also, the bill repeals the quarterly contribution requirement for plans that are fully funded for current liability for the preceding plan year.

In developing the funding proposal, the task force rejected two approaches to closing the funding gap. One would have placed explicit limits on benefit increases in underfunded plans. It is the view of the task force that benefit increases be paid for quickly through strengthened funding requirements. Explicit restrictions on benefit increases are not necessary and are unfair to working people and retirees. Most plans for executives or salaried employees have automatic benefit increases built in through a salary-related formula.

Second, the proposals do nothing to diminish PBGC guarantees. Reducing worker protection is unacceptable. It is not what the PBGC is about.

Strengthened funding rules should ensure improvements in most cases. There are, however, special circumstances in which enhanced PBGC compliance authority is needed to provide better pension protection.

The Omnibus Budget Reconciliation Act (OBRA) of 1987 introduced several measures designed to give the PBGC and participants recourse against the assets of the plan sponsor, including all members of the sponsor's controlled group. OBRA 1987 made the entire controlled group joint and severely liable for minimum funding. Further, the PBGC received a lien for missed funding contributions, and the agency's liability claim was increased.

The OBRA 1987 rules left a major gap in protection. Numerous corporate transactions, such as the break-up of the controlled group, the liquidation of the contributing sponsor, or the spin-off of a division and its plan to a weak buyer, can substantially diminish the assets available to maintain a plan. These transactions can increase the risk of plan termination, with the potential for harm both to participants and the PBGC.

The PBGC's early warning program seeks to identify these transactions before they occur. Even when the PBGC learns of the transaction, it frequently can do very little because its only remedy is to terminate the plan. Termination is a harsh remedy because participants stop earning benefits, and the increased employer liability arising on termination can force employers out of business. The PBGC's ability to negotiate is impaired, particularly in large cases, because termination is not always a credible threat.

The proposals authorize the PBGC to apply to the court for remedies other than involuntary plan termination if we determine that certain corporate transactions, if implemented, would create a risk of long-run loss to the agency. The same statutory standard applies to involuntary terminations.

For example, the PBGC could seek to have an employer leaving a controlled group retain responsibility for contributing to the group's underfunded plan for a certain period of time.

As part of this proposal, we would require that controlled groups with more than $50 million of underfunding provide the PBGC, within 30 days, advance notice of designated, significant corporate transactions that might affect underfunding. In addition, the reforms would:

- Require other employers to inform the PBGC of significant corporate events after they occur;
- Require employers with large underfunded plans to provide the PBGC with annual reports containing specified actuarial and financial information;
- Provide ongoing plans a claim for pension underfunding against liquidating sponsors or controlled group members;
- Prohibit employers from increasing benefits in underfunded plans during a bankruptcy proceeding;
- Authorize the PBGC to enforce minimum funding requirements when missed contributions exceed $1 million; and
- Authorize the PBGC to immediately file a lien against an employer's assets on behalf of a plan and for the full amount of the missed contribution, if the employer fails to make a contribution of more than $1 million.

With these tools, the PBGC should be able to step in and make a difference in those situations in which the funding rules do not provide sufficient benefit protection.

The PBGC continues to support bankruptcy reforms that would: (1) make it clear that companies are required to continue to make their minimum funding contributions while in bankruptcy, and (2) give the PBGC the option of being a member of creditors' committees. Bankruptcy reforms are now proceeding in separate legislation.

The proposed reforms would require that timely, clear information on plan funding and PBGC guarantees be provided to participants in underfunded plans.

Although plans must provide participants with considerable material on the financial status of their plans, workers and retirees often do not understand the financial condition of their pension plans or the consequences of underfunding of their promised benefits. They also may not know that PBGC guarantees have limits and that some of their benefits may not be fully covered. They receive different information at different times, often in ways that are difficult to understand.

The proposal requires plan administrators of underfunded plans to notify plan participants and beneficiaries about the plan's funding status and the limits on the PBGC's guarantee, should the plan terminate while underfunded. The bill requires that the notice be written so that it may be understood by the average plan participant. The PBGC will provide a model notice and other guidance shortly after enactment.

The bill also seeks to facilitate payment of benefits to so-called "missing participants." Employers terminating fully-funded plans cannot always locate every participant but are required to account for missing participants to complete the termination. Employers attempt to resolve this problem through several methods, such as setting up bank accounts or purchasing deferred annuity contracts for the missing people. These methods have often proved inadequate, because missing participants may later come forward and be unable to locate their benefits. If no funds are received from the plan, the PBGC may be liable for the guaranteed benefit of a missing participant.

The legislation addresses this problem by establishing the PBGC as a clearinghouse for the payment of these benefits. Thus, as an alternative to purchasing annuity contracts, employers may transfer assets for the benefits to the PBGC, and the PBGC will pay benefits to the participants when they are finally located.

As you and your clients know, the PBGC's annual insurance premium for single-employer plans has two elements: a flat-rate charge of $19 per participant paid by all single employer plans and a variable-rate charge of $9 per $1,000 of unfunded vested benefits, which is paid only by underfunded plans. However, the variable-rate charge has a maximum limit of $53 per participant. This limit weakens the funding incentive for most seriously underfunded plans.

Because of the cap, the companies with the largest amount of underfunding effectively pay only $3-4 per $1,000 of underfunding. Additional underfunding does not give rise to greater premium payments.

Plans at the cap account for 80% of all the underfunding in single-employer plans, but their premium payments represent only about 25% of the PBGC's total premium revenue. With this proposal, they would pay half. The companies can afford it. On average, for every dollar increase they pay in premiums, these companies pay an average $251 in dividends. It is time that the plans posing the greatest risk pay their fair share.

The proposals would not increase the flat rate premium. It would remain at $19.

Finally, the Act contains other changes, including:

- Revision in the calculation of lump-sum distributions to require use of the 1983 GAM table and the interest rate on 30-year treasuries
- The rounding down of the annual increases in the contribution and benefit limitations for retirement plans
- Cutbacks on the availability of cross testing of age-weighted retirement plans

These are the highlights of the administration's reforms: strengthened funding rules, enhanced PBGC compliance authority, increased premiums for plans posing the greatest risk, and broadened disclosure to workers and retirees.

Based on an initial analysis, funding should improve during a 15-year period, from the current average of 55-90% of all benefits and from 60% to 100% of vested benefits.

These reforms will also stabilize the financial condition of the PBGC. Based on past experience, we expect that the PBGC deficit will be eliminated within ten years.

We are looking forward to congressional review of our package. In early October 1993, a House Ways and Means Subcommittee, chaired by Congressman Pickle of Texas, held hearings on our reforms. Next month, a House Labor and Education Subcommittee will review the package.

In developing the package, the task force sought to reach out and obtain the best thinking of all those with a stake in the system. Now that the legislative process is beginning, we hope that the participation and the dialogue will continue.

ROLE OF THE PBGC

MR. SEGAL: Dave Langer is going to do some analysis of this proposal.

MR. DAVID LANGER: I became very interested in the PBGC in 1991 when I heard James Lockhart, the executive director at a talk here in New York, before a bar association group. He said things that aroused my curiosity, and I disagreed by raising some questions. For example, he called the PBGC an insurance company, and I did not see that. I wrote an article on that for *Pension World*, which appeared later in 1991.

As I dug more deeply into it, I became more interested. As chairman of The Actuarial Society of Greater New York, I set up programs and I invited Dave to come and speak about the real numbers under the PBGC. He revealed a certain number of things, and it was very interesting to me because it gave me further opportunity to delve into the problems that the PBGC faces.

I have written a number of articles. There was a major, two part article in *Pension and Investments*, which appeared in September 1992. I challenged many of the understandings of the PBGC. I also revealed a good deal of background that you might be interested in knowing. I think it is a very fine publication as a result. I do a lot of my research by using the *Record* of the Society of Actuaries. It is really very estimable. It carries a variety of view points and is one of the best sources of research that I have been able to find on this particular topic.

The task force that Dave mentioned has determined that there are serious problems requiring correction at this time. Dave mentioned some of the facts and figures. Some of these already appear in a September 30, 1993 press release formally announcing the arrangement of proposals that the PBGC would like because of the problems it foresees.

This is from Secretary Reich: "National security of thousands of Americans covered by single-employer pension plans is at risk because their pensions are unfunded. There has been dramatic growth of underfunding from $27 billion in 1987, to more than $38 billion in 1991, and expected to exceed $45 billion when 1992 figures are reported. This underfunding poses an unnecessary and unacceptable risk for workers and retirees. Should their pension plans be terminated, they lose benefits that are not covered by PBGC's guarantee, and PBGC, already facing a 2.7 billion deficit is further jeopardized by this growing underfunding." Then it goes on to say where the major underfunding is coming from.

The industries he mentions are steel, auto, tire manufacturing, and airlines. They have large numbers of union members from the united auto workers (UAW), the steel workers, etc., and they have all adopted flat benefit plans. Because of restrictions on funding, the ways these benefits are increased periodically, and downturns in these industries, the underfunding of plans in those particular industries has grown.

Now, interestingly, he adds that although the PBGC is not in any immediate danger, its problems need to be addressed now. It is common sense to deal with problems while they are still manageable. He also mentions that there is plenty of money to cover benefits at this time, and there is no need for immediate concern. Dave has echoed this thought, too.

I went back over the annual reports from the last four years, to the term of James Lockhart, former executive director of the PBGC. (He has been replaced by Martin Slate, who was chosen by Secretary Reich and the Clinton administration.) I wanted to see how Lockhart was expressing the sense of alarm at that time. It always was in terms of the deficit and large, unfunded, existing plans at this time.

In my own writings and criticism, and in those of the Employee Benefits Research Institute, we have been pointing that there is no cause for immediate alarm. I will demonstrate shortly that the assets are more than enough to cover benefits and expenses for a long, long period of time.

What I have picked up is that the PBGC wants to have it both ways. It has great trouble and it does not have any trouble. This is what I read in its statements.

It raises the question, what would make the PBGC happy? If the $2.7 billion deficit were to be reduced to zero, which is quite possible if the interest rate goes up 1% or 2%, would that make it happy? The people at the PBGC are talking about $45 billion of underfunding in current plans. If somebody deposited 45 sacks of a billion dollars each on the steps of the PBGC, would that make it happy? It offers a lot of numbers, but I do not get any sense of the PBGC saying, "We are this much short" or, "If we only get this goal over here we'll be happy." All I get is a sense of a terrible catastrophe facing us -- "Just give us money, cut benefits, raise premiums, make employers put in more contributions, and then we will be happy." I still do not understand, as an actuary, what number the PBGC would like to have in the till. I am going to make a suggestion of what I think would be appropriate later.

With that introduction I am now going to provide some background data. All these data come from the PBGC annual reports. I must add that the general accounting organization (GAO), for the period 1974 when the PBGC was formed, until 1993, would never pass approval of the PBGC's numbers. It will not give a favorable determination of the PBGC's accounting reports. Just last week there was an announcement that the GAO, after 19 years, is finally going to approve its figures.

Table 1 shows the PBGC-claimed deficit compared with the true deficit. I have tried to show what I think is most important in the annual reports of the PBGC. The reports are not user friendly in the least, and they still take a lot of time to go through.

I have shown the last eight out of 16 years. I think the PBGC has matured so we can restrict ourselves to the last eight years. The PBGC-claimed deficit was $1,325 million in 1985. There was a big increase to $3.8 billion in 1986. Then it dropped to around $1.5 billion or less for three years and then rose to $2,683 million in 1993. On the basis of these statements, Mr. Lockhart was saying the deficit has doubled. It did so from $1,124 to $2,683 million. However, it was more than that back in 1986. He is leaving out an appropriate period of history.

TABLE 1
PBGC-Claimed Deficit Compared with True Deficit
($ Millions)

Cumulative Deficit as of 9/30	PBGC-Claimed Deficit	Probable Net Claims	True Deficit
1985	1,325	464	861
1986	3,826	2,145	1,681
1987	1,549	312	1,237
1988	1,543	108	1,435
1989	1,124	242	882
1990	1,913	1,111	802
1991	2,510	776	1,734
1993	2,683	999	1,684
	Total liability – assets + probable net claims		Total liability – assets

Now, what are probable net claims? The PBGC looks at companies which it considers to be in dire straits and estimates which will become claims in the following year. How they do that, I do not know.

The column "probable net claims" (the net of the benefit liability over the assets in the plan that it estimates,) shows quite a large amount -- $2,145 million in 1986. It dropped down over three years, and then suddenly there was a big jump to $1,111 million, and then a drop to $776 million. It was almost $1 billion for this last year.

I subtracted the probable net claims from the PBGC deficit, and came up with what I call the true deficit. I did this because I do not think it is appropriate to project into the future in developing liabilities, unless you want to go ahead and predict all other elements as well: the premiums, the expenses, and so on. I do not think it is appropriate to project only one item, which happens to be a negative and makes the deficit look that much worse.

It is interesting. There is a big jump in 1990, 1991, and 1992, averaging about $0.9 billion, which is a very substantial part of the PBGC claim deficit. By subtracting the probable net claims, we get what I call a true deficit in the last column and it does not look all that bad at this point. I graphed the values (Chart 1), so you can see what they look like in terms of their magnitude and in relation to each other. You can see that the true deficit is substantially less than the claimed deficit.

Now a deficit is an absolute number. What does it mean when you relate it to another number that is running parallel to the deficit over the years? One measure of relationship that I used was assets. How does the deficit compare with assets (Chart 2)? Notice that the assets went from $1,155 million to $6,300 million, an increase of between five and six times in this period of seven years.

The PBGC-claimed deficit – I did not even use the true deficit – went from $1,325 million seven years ago to $2,683 million. You will notice there has been a slight increase in the amount, but it has been lagging far behind the assets. In relation to another significant number, the deficit has not been increasing at all but has been falling behind.

I have also expressed the deficit as a percentage of the total PBGC liability (Chart 3). The PBGC-claimed deficit goes from 53% to 30%. The true deficit, on the other hand, went from 43% down to 20%, about half. I will repeat, interest rates are at an all-time low. Raising interest rates by 1% or 2% would wipe out the 20% deficit. Therefore, why all the clamor by Secretary Reich, Martin Slate, and all the other officials about the deficit? Is there really a horrendous deficit? Based on what I have been able to determine, there is not.

As actuaries we are concerned with solvency. Let us take a look at some of the vital signs of the PBGC. How sick or healthy is it? Here, I show some magnitudes for your edification (Chart 4). Most people are not familiar at all, that is why I provided these numbers. The premiums have risen from about $90 million, back in 1985, to $876 million. This is a very large rate of growth. On the other hand, benefits have gone from about $180 million to $634 million, and expenses have gone from about $30 or $40 million to $99 million in 1992. I have not shown investment income, but if you deduct the $634 and $99 from the $876, you get a positive cash flow before investment income. I would not refer to this as a sign of a sick entity, and the margin seems to be increasing.

PBGC expenses, including administrative and investment expense, are shown in Chart 5. In 1985, the expenses were $33 million, and they have since risen to $99 million. It spent $428 million in the seven-year period. The annual rate of increase was 17%, and during the last three years, the increase averaged 30%. In 1992 the increase was 40%. Does it really need all that money, and where is it going? It may be able to justify every nickel and dime, but I would love to see a justification for this kind of expense increase. I am just showing this to you, because many of you are familiar with insurance companies and financial statements. You can probably evaluate what this pattern means better than I can.

The next thing I did was take the assets and divide by the total outgo, benefits plus expenses (Chart 6). Which way is this going? Is the front being run into the ground? Is it moving sideways? Lo and behold, the ratio in 1985 was 5.69. There was $5.69 for every dollar that was spent in benefits and expenses. Furthermore, the ratio has risen to 8.59, which is 50% higher than 5.69, implying that the annual rate of increase was 6%. Again, I think this is a vital sign, and it does not indicate that we are dealing with a sick entity here.

CHART 1
PBGC-Claimed Deficit Compared with True Deficit
($ Millions)

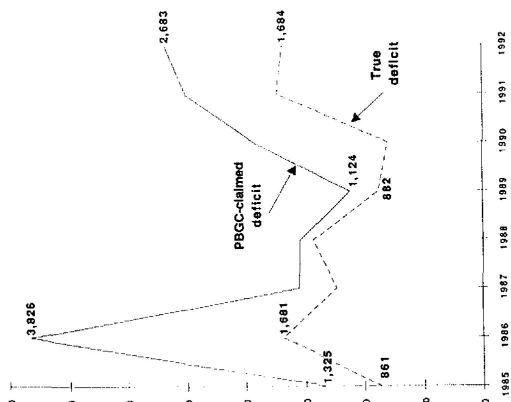


CHART 2
PBGC-Claimed Deficit and Assets
($ Millions)

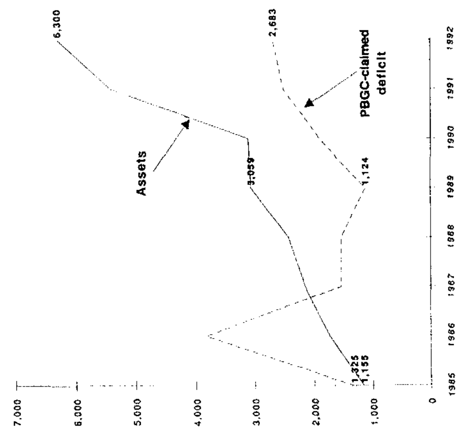


CHART 3
Deficit as a Percentage of Total PBGC Liability

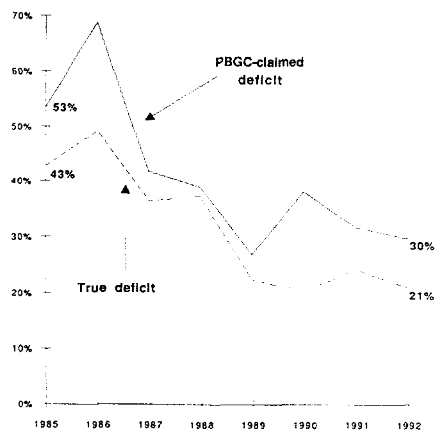


CHART 4
Premiums, Benefits, and Expenses
($ Millions)

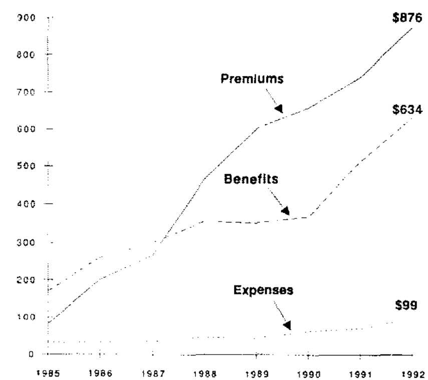


CHART 5
Expenses: Administrative + Investment
($ Millions)

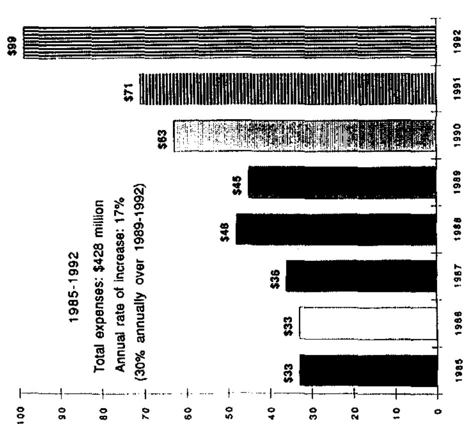
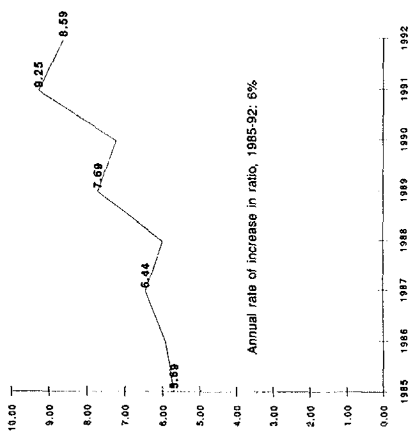


CHART 6
Ratio: Assets to Annual Payout
(Benefits + Expenses)



At this point, I have dealt with one of the key figures that has been given to the public to indicate a very, very sick PBGC. The PBGC says the whole system is going under, and retirees will be without benefits because of a $2.7 billion deficit. I do not agree with this, and if anybody does not agree with me, I would be very happy to hear your point of view during the question period.

The next significant measure is the $45 billion that it says is the current underfunding. Now that is for all plans, whether they are healthy or not. I do not know how it arrived at that. You would have to look at an awful lot of pension plans – maybe 60-70,000 plans – and get the actuarial reports based on different assumptions of interest, turnover, and retirement. I do not know how it adjusted it to a common basis to arrive at $45 billion. I am not saying it is wrong. I just do not know how the PBGC could arrive at it and offer it as a respectable figure. I would be very happy to hear from Dave when he has an opportunity later. It is saying to look at this underfunding as if it is on its doorstep now. Some of the plans probably are. There are always companies with plans that will be on death's doorstep.

I do not know if they are wrong or right, but let us go through the process for determining how to arrive at a number for the future. You would have to go through each year in the future, look at all your plans, and estimate (at every important time within a year) what the present value of the guaranteed benefits and the assets will be. You would then subtract and multiply by the probability that the plan will terminate in that year.

Let us very quickly go through some of the factors that are involved here. The probability that a plan will terminate depends on the status of the company, which in turn depends on the company's management skills, the economy, the effect of technological change, and change in marketing and retailing, and so on. You have to develop present-value benefits in each year of the period you are assessing. What will be the negotiated increase in flat benefit plans, plan liberalization in nonnegotiated plans, salary increases, and early-retirement subsidies? Take plant closings with enriched benefits. Which ones are going to close? How do you do all these things?

Next consider the value of the assets available to the PBGC. The plan assets during the year that is being looked at will depend on the actuarial assumptions, the method, the contribution level, waived amounts, investment appreciation, investment yield, asset depletion due to lump-sum payments, early-retirement windows, and failure to make contributions. Then, assuming the plan goes under, the PBGC has access to company contributions because of the net worth it is entitled to when the plan terminates. How can you know now what the assets, available to offset any increase in liability in a terminated plan, will be down the road?

Premiums are another significant item. Premiums depend on legislation, the number of plans terminating, and the number and size of new plans. Anybody with a good crystal ball can determine any of those factors. The future flow of expenses is going up quickly but is at a lower level. Who knows what legislation and regulations there will be in the future, including amendments to the PBGC laws. I have come to the conclusion that it is virtually impossible to predict accurately. I do not know how the PBGC does it. It must have a very good crystal ball, because it publishes numbers with alacrity and seems very confident of them.

Looking back, as a test, I have one measure of the PBGC's ability to make estimates of plans terminating and their liability. There was a column, Probable Net Claims, on Table 1. We took a look at PBGC reports and we were able to assess how successful the PBGC has been in evaluating new claims in a short time frame, which I think is just one year, from plans it expects to collapse and become wards to the PBGC within that year. We found the following: in one year, during the last three years, it was 10% right. Using its term, "companies currently experiencing dire financial consequences," in its best year it was 50% right. In the intermediate year it was about 37% right. It averages out to being about 32% right. Meaning that it was 68% wrong on a near-term basis. It seems to me that you have to have a lot of confidence to project for five or ten years. It even gives figures for 20 and 30 years.

I have concluded that it is almost meaningless to deal with a future unfunded. I think a better vital sign of the health and the trend in the health of the PBGC is the ratio method. Chart 6 showed what the ratio method produces.

I have done my own projection – Table 2 – and I am offering the formulas. You can do this yourself. The PBGC has a fiscal year of September 30, and it estimated the assets accordingly on that basis. The top line, 1992 is, of course, based on actual numbers from the PBGC's annual report. We start with 6,300 million in assets, $876 million in premiums. Other income is made up of two parts: investment income plus asset recovery from terminated plans.

I show the assumptions that I used for each column. I used a 4% increment for premiums, which is not the cost of living. I used 14% for other income, 7% of which is from investment yield and 7% is from asset recoveries. We did a test on asset recoveries to see what it was actually adding each year. It came out closer to 21%, but I wanted to keep numbers at a lower level.

I assumed expenses would level off at some point from the 30% average of the last three years and come down to what I think would be more meaningful, 10%. I think I used a fairly high rate of increase for benefits, about 12%. Then, for each year, I took the ratio of the assets in the second column to the expenses plus the benefits. You recall the figure 8.59 and here you can see the trend. You can play "what if" on your charts and spreadsheets, which is something I enjoy doing very much.

I must admit this is not the most sophisticated approach that could be used. I do not know the incidence for the huge numbers of benefits that will come to the PBGC or for the small amounts. I do not know if they can have an investment yield of 25% or –10%. I just do not know these things. However, I think you can see that by using reasonable assumptions, you can come up with a fairly flat ratio, 9:1. This raises the question, what is satisfactory? Should that number be 5 instead of 9, or should it be 15? I do not really know. I think that can be properly debated and evaluated.

The nice thing about Table 2 is that, particularly for the near term, the PBGC has already worked up numbers for each year and you can put them in. You may not expect a benefit increase for 1994, but you may expect four major companies to go under with a huge increase of benefits. This would probably mean that you would have to lower the amount in the following year. However, do not take too much confidence in your numbers, because it is very hard to make predictions in this kind of a setting.

TABLE 2
Assets Estimated on a Cash-Flow Basis
($ Millions)

Year Ending Sept. 30[a]	Assets[b]	Premiums	Other Income[c]	Expenses	Benefits	Ratio of Assets to Expenses + Benefits
1992	6,300	876	723	99	634	8.59
1993	7,280	911	888	109	710	8.89
1994	8,334	947	1,021	120	795	9.11
1995	9,461	985	1,164	132	891	9.25
1996	10,660	1,025	1,317	145	998	9.33
1997	11,927	1,066	1,478	159	1,117	9.34
1998	13,257	1,108	1,648	175	1,251	9.29
1999	14,642	1,153	1,826	193	1,402	9.18
2000	16,069	1,199	2,010	212	1,570	9.02
2001	17,523	1,247	2,199	233	1,758	8.80
2002	18,984	1,297	2,390	257	1,969	8.53

[a]Assumptions and formulas for 1993-2002 are as follows:

Assumed rates:	4%	14%	10%	12%
	Investment yield:	7%		
	Asset recoveries:	7%		

[b]Formula for Assets @ t: Assets (t-1)x(1+i) plus
Premium income x (1+i)^.5 minus
Expenses x (1+i)^.5 minus
Benefits paid x (1+i)^.5

[c]Investment income plus asset recoveries from terminated plans
Investment Income A(t) - [A + Premiums - Expenses - Benefits Paid] @ (t-1)

The one thing I like about the ratio method is that it gets you away from the unfunded, the deficit, the future unfunded, and it is more meaningful. I can relate to a ratio much more than I can to $2.6 billion. I am not quite sure how to rationalize that.

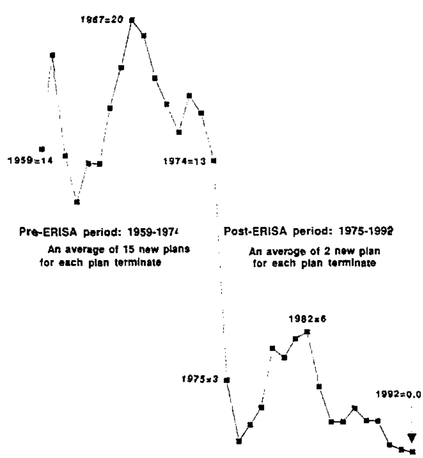
Dave has already given you a very good summary of the proposals. I would just like to add a few comments. They are very intricate. There are 20 different proposals and number 21, which Dave mentioned at the end, was the one about age-weighted profit-sharing plans. The PBGC wants to renege on that, though it passed muster for about six years now.

Based on the numbers I have been able to come up with, I do not think that the PBGC, Secretary Reich, and all the other officials of the PBGC have justified their stand that something urgent needs to be done. I am not saying there is nothing wrong. I just do not get any sense of urgency. There is plenty of time and plenty of money coming into the till. Now with 20 proposals, I would ask if we really need all that.

The problem that has been hurting the pension field seriously over the years has been increased complexity. Now these people are coming along with another overlay of complexity. I think it is very counterproductive. You cannot lay this kind of a burden on employers without driving more of them out of business.

Chart 7 will give you a feel for how employers have been voting about defined-benefit plans. This was published with my article in *Contingencies.* I divided up the period 1959-92 into two parts: Pre-PBGC and post-PBGC. What have employers done? Notice in the first 15-year period that there is a ratio of 15 new plans to each one that terminated. Then there is a precipitous drop. It dropped to three in 1975. ERISA came into effect on September 2. I am not saying this is due to the PBGC by itself, I am talking about ERISA including the PBGC. You see what has happened. Right now new plans have come to a virtual halt, and plans are terminating in droves. The rate of termination of the defined-benefit plan has been 10,000 per year. It has gone from a maximum of about 150,000 to, I think, 65,000 plans now. That is why I am concerned about another overlay of complexity.

CHART 7
Ratio of New Plans to Terminated Plans: 1959-1992



What I would want and hope for in the proposals is encouraging employers to put in more money by removing penalties for putting in too much money, or overfunding past the full-funding limit. I think it has been very harmful to limit what the employers want to put in. What has basically happened is that employers have lost the ability to budget, to put in more money in good years and less in bad years. They are restricted to smaller amounts, whether they are having good years or bad years. I do not think it is the way to run a long-term program.

The PBGC is also getting more and more involved with companies in bankruptcy proceedings. I can see employers watching the PBGC in action in bankruptcy court and saying, "I do not want any part of that." Why would an employer want a defined-benefit plan? I can see it as a negative. I am not saying it will mean a plan will terminate, but obviously this kind of a sight is uncomfortable for an employer.

I will leave out a few things in the interest of time for discussions later. I think there are a number of alternative solutions. I think some things that are being suggested have some worth and deserve more consideration. However, there should not be any rush to put them through because there is not a dire need at the present time. It should be thought through carefully. I am going to suggest some alternatives to what the interagency task force proposed.

I would allow small plans (new plans, certainly, and old plans) to come out from under the PBGC. Whether you put the number at 100 participants or a 1,000. I really think the PBGC genuinely has no interest at all in these plans. I think they are a nuisance to the PBGC and it would just as soon see them go. In fact, I have heard officials say that much. Why burden these companies? They are the ones with the least money and are least able to cope with all the different laws and regulations.

I think the PBGC has to encourage the formation of plans by using a kinder approach. I do not get the sense of the PBGC being a kind organization. I get the feeling sometimes, when reading how it is handing along these proposals, that it is a colonial power, and all the defined-benefit plans are natives under the colonial power in their particular country. I do not think it should get involved in contests in court. That should be avoided at all costs. I think it should join efforts with the Treasury and the Department of Labor to simplify legislation and regulation. It should encourage the IRS to remove the penalties for higher deductions; for example, allow contributions beyond the full-funding limitation without a deduction or penalties. Fiduciary behavior ought to be promoted at the PBGC and the IRS, and among other government agencies, so that they will exert more care and not cause so much damage to the defined-benefit field. I think it is very important to curb the agencies.

The PBGC has been with us for since 1974, and I think it would be very helpful to determine the answer to the question, was the PBGC worthwhile? In the time it has been on this earth, has it really helped the defined-benefit field in protecting participants? I summarize an approach to doing this on a cost-benefit basis. We have to recognize that many persons have received benefits, but would the entire population of actual and potential defined-benefit plan participants have been better off had the PBGC never existed?

First is the cost of the PBGC. Premiums paid were \$4.5 billion, based on numbers from all the reports. I have estimated the cost to employers to process paper work and get professional help to be \$2 billion. The loss of benefits to future retirees, where employers have not started plans, have not improved plans, and have terminated plans can be estimated, but it is a very hazardous procedure. However, there is no question that many participants wind up with no benefits or less benefits because of the actions of the agencies.

The expenses of the PBGC were $99 million in 1992. To date, it has spent $605 million. That is a lot of money. At the outset, if asked what it is going to cost, I would say a few million dollars a year. Yet they are up to $605 million in 1992.

Regarding the benefits, the PBGC has already paid out $3.5 billion, and there is no question that many employees have increased confidence knowing that the PBGC will guarantee at least a basic benefit.

I wanted to help you go through the exercise that I have gone through. Is the PBGC justified in setting forth all these proposals? How should we look at them in that light?

MR. SEGAL: One advantage or positive benefit of the PBGC that you forgot to mention, Dave, was that it has kept all of us very busy since 1974 and we have been getting busier. I also think as actuaries, we all have to be careful that we do not blame the PBGC for everything. As you mentioned, there are other agencies involved. Personally, I think there are certain other agencies that have given us a lot more than the PBGC has. In Dave Gustafson's presentation, it was very interesting to hear some of the ideas that are going to be presented in the proposed legislation. It seems to me, Dave, correct me if I am wrong, that some of them really involve the internal revenue code (IRC). It seems some of them are much more IRS oriented than PBGC oriented. I was interested in one of the last comments you made with respect to requiring higher contributions, that excise tax would not be applied to certain nondeductible contributions. That is different from raising the deductible limits, is it not?

MR. GUSTAFSON: That is true. It was just a relief from excise tax if you are referring to the combined 25% business, and it is only with regard to 401(k) plans.

MR. SEGAL: So they are really not talking about raising the limits. They are just saying there will be no excise tax applicable.

MR. GUSTAFSON: That is right, but you will get the deduction ultimately. It is just a deferred deduction. It is not that you will never get it.

MR. SEGAL: That is important from the point of view of the plan sponsor and those of us who have interests in plans staying in existence. Some comments have been made during the last couple of weeks by various people inside and outside the government. If, for example, you raised the deductible limits to encourage funding, it would be a revenue loser. They would then have to find places to increase revenue. I have also heard talk about changing the indexing of the 415 limits so that would be similar to what was just adopted under 401(a)17 where, until you hit threshold, the limit would not go up. I have also heard talk that the proposed reduction or elimination of age-weighted profit-sharing plans or cross testing for defined-contribution plans is a revenue-raising measure and not necessarily a corrective measure.

MR. FRANK TODISCO: I disagree with the tenor of your presentation, that basically the PBGC is crying wolf. I would like to make three points, if I may. First, I do not think it the case that the PBGC, in making projections of the future unfunded liability, is doing some crazy exercise and claiming great confidence in the numbers. In the PBGC's 1991 annual report, it tells of a ten-year forecast that it did to project the benefits to the year 2001. It used three different sets of assumptions: optimistic, moderate, and pessimistic. Those assumptions produced deficits of $2.7 billion, $5.5 billion, and $17.9 billion. I think if you are presenting a range like that you are certainly not claiming that you are confident in the numbers you are producing. You are really just presenting a picture of what might happen. Not doing that exercise would be burying your head in the sand, and that would be a mistake.

MR. LANGER: I am not saying that at all. Did you read the 1992 report?

MR. TODISCO: No, I did not.

MR. LANGER: There the range has been expanded a little bit. In projection A, it falls below $2.7 billion. In projection B, it is around $4 or $5 billion. In Projection C, it goes up to $28 billion. Then it adds, which is characteristic of the PBGC, that it may be $28 billion on the highest possible projection C, but it could be even worse than that.

MR. TODISCO: Yes, it does say that its pessimistic case is not a worst case assumption. Second, you mentioned that the PBGC interfering in bankruptcy is likely to scare employers away. In their annual reports (I read two reports from the last four years) the PBGC talks a great deal about the problem of moral hazard and employers dumping benefits onto the PBGC by declaring bankruptcy or spinning off a member of a control group, etc. I think it is essential that the PBGC goes after that sort of problem. If an employer is not going to set up a defined-benefit plan because it is afraid it will not be able to dump it on the PBGC in bankruptcy some day, then maybe it is better off not having such a plan.

MR. LANGER: Just the sight is very disagreeable, and I would like it to be avoided as much as possible. In some cases you cannot avoid it, but I do not want to see the PBGC meddling in corporate affairs, which includes bankruptcy. I would like to see the PBGC out of it because I think it has a very negative effect on the general population of sponsors or prospective sponsors. I will not deny that in some cases you have to do it because that is the way it is now.

MR. TODISCO: You presented statistics about the decline in the number of defined-benefit plans versus increasing regulation. I think that is an incomplete picture. I know some studies have pointed out that the number of defined-benefit plans has gone down coincident with the allowance of 401(k) plans and with their rise. Second, shifts in the economy have also caused much change. The economy has become less unionized and less of a manufacturing economy. It has become more of a service economy. So the new industries are those that traditionally have not had defined-benefit coverage anyway. I think it is true that the regulations have caused part of the decline, but only part of the decline.

MR. LANGER: I will not disagree that there are other factors.

MR. GUSTAFSON: I could not have said those three points better myself.

MR. JAMES A. ROBINSON: I do not practice in the pension area. Fear drove me to this session. As a taxpayer, I would hate for my burden to burden my neighbors and customers. Let me narrow the focus of my question to Mr. Langer. Mr. Gustafson's remarks considering the proposed legislation emphasized changing some of the behaviors and increasing the funding of what were called troubled companies. Currently, for those companies, do you find anything worthwhile in doing that, such that the cost of their defined-benefit plans does not become socialized and we can look forward to a future in which the PBGC can announce that legislation is taking care of the business, that it is a success, and that it does not need this corporation anymore?

MR. LANGER: This kind of antiselection was built into the PBGC back in 1974. There were warnings about it and there is the situation now. I think the interagency task force did state that it is trying to limit its regulations to those companies that cause the most harm. I think it is commendable that it is doing that. I would give it a lot of credit if it could focus in on those companies that are the most likely to go under with very large liabilities: those four industries -- auto, steel, etc. It is trying to do it through proposals. My fear about the proposals is that they are going to drag in many other companies that are moving along and have unfunded liabilities. Unfunded are part of the funding scheme for actuaries. You create an unfunded and it is paid up over a period of years. When funded by itself, it is unnecessarily harmful. I do hope the task force could focus more and more on just those specific companies.

MR. GUSTAFSON: I would like to repeat that the proposals, by and large, are beneficial to overfunded plans. We eliminated the quarterly contribution requirement and have done several things that I think will make people in that status happier. Of course, for the small plans, the funding changes do not apply to plans with fewer than a 100 participants.

MR. SEGAL: As a practitioner, I would like to agree with Dave Gustafson on that. There are some very beneficial changes for well-funded plans, especially in acknowledgement by the PBGC, from Marty Slate on down. Well-funded plans should not have to assume any more of the burden of taking care of the underfunded plans. That is what the whole idea of insurance is about.

MR. DANIEL H. KALISH: I have often wondered how the PBGC feels about the full-funding limit. I have never heard anybody talk candidly about that. It seems to me that the IRS and the PBGC would be completely at cross purposes. Could you give us off-the-record remarks about it?

MR. GUSTAFSON: I would assume that you are referring to the 150% that arose in 1987, which was an administration proposal. The PBGC is part of the administration and was part of the administration then. We at the PBGC clearly have mixed feelings about proposals in that area and have done some studies as to what the long-term impacts would be. The Department of Labor did a post-87 study that indicated that funding would come down because of the 150%. When funding comes down, we are further at risk, but we submit legislation and we act as an administration. We try to harmonize all the various, sometimes conflicting interest in submitting legislation.

MR. CLAUDE B. SISSON: I have a question for Mr. Gustafson regarding the solvency rule. As a pension actuary, I am looking for things in these proposals that are going to cause me headaches, and this one looked like it might. Is this proposal being put forth in response to a problem that has occurred already at some large plan, or among many small plans? Or is this a proposal that is designed to prevent a problem that has not yet materialized? What is the magnitude of the problem that we are trying to prevent here?

MR. GUSTAFSON: We have had several major plans and a good number of small plans run out of assets to pay benefits when due. When that happens, we have to go in and involuntarily terminate those plans. Just to give you a couple of examples, the Long-Temco Vought (LTV) republic salaried plan had about $230 million in present value of accrued benefits at time of termination and $7,700 in a bank account to pay benefits. The Kaiser Steel plan was about to run out of money when we had to terminate it in September 1986. Another pension plan, more recently, was about to run out of money with an underfunding of about $90 million, if I recall. In the small-plan area, there are plans in which the plan sponsor just closes up shop, liquidates, and walks away. No more money is going into the trust, and therefore, ultimately, it is going to run out of dollars to pay the retirees. It is an issue that surprisingly has never been vocally addressed by actuaries saying that there should be a funding standard to preclude plans from running out of money. This is one approach to take, and we have considered a good number of others. It is a real world problem.

MR. SEGAL: Also, Dave, I believe each of the plans you cited had satisfied minimum funding requirements.

MR. GUSTAFSON: Absolutely. One of them had a credit balance in its funding standard account.

MR. SEGAL: It is also good to point out that these are proposals that are going to be offered to congress. As a profession, we should have our opportunity, and we must take advantage of it, to make our thoughts heard. For example, if we have problems with the solvency test or ideas on better ways of doing things, there will be an opportunity for us to say something. I think there will be an opportunity for input on this legislation. We should not lose sight of this. We cannot complain after it gets enacted if we have not taken the opportunity to provide input.

MR. GUSTAFSON: I would certainly second that and would welcome anyone's comments.

MR. LANGER: Dave, is there a timetable for the proposals? When might they come into fruition? Is it going to be three months, a year and a half, three years?

MR. GUSTAFSON: Assuming that the legislation is introduced within the next couple of days, as with most legislative proposals it is not likely to be a stand-alone proposal. It is likely to be part of another proposal, maybe a miscellaneous revenue proposal or a budget or budget reconciliation proposal. The timing is more likely to be next year than this year.

ROLE OF THE PBGC

MR. LANGER: Another question is on item number 21 in the list of proposals on the age-weighted profit-sharing plan. This does not come under the auspices of the PBGC. Why is the interagency task force proposing something that is not within its purview?

MR. GUSTAFSON: There are other elements of this proposal that do not deal solely with the PBGC. Although one can certainly make an argument, as was made by Randy Hardock of the Treasury Department during the Ways and Means testimony, that, in fact, age-weighted profit-sharing proposals are not encouraging the maintenance or formation of defined-benefit (DB) plans. You get the benefits of a DB plan without having to really lift the heavy weights.

MR. SEGAL: Also to be fair, I think it is quite obvious that that is not a PBGC proposal, and we are talking about the PBGC. It is in the bill, it is administration, but that is not a PBGC proposal. This bill, as was outlined by Dave Gustafson, is probably 95% PBGC and 5% other elements.