

Why the PBGC Termination Insurance Program Should Be Ended

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1. Introduction

The Pension Benefit Guaranty Corporation (PBGC) exists “to encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants” (ERISA, Section 4002(a)(1)). The PBGC’s sole source of funding, by law, is premiums paid by sponsors of private defined benefit (DB) plans.

But what if the ongoing health of the PBGC and the health of the DB plan system are fundamentally incompatible? From a plan sponsor’s point of view, termination insurance premiums are equivalent to a tax on DB plans. Thus, there is an inherent contradiction in the PBGC’s nature: it exists to support the DB plan system by taxing it. Like anything else, the more DB plans are taxed, the fewer will exist.

As the PBGC’s deficit has grown, “saving” the PBGC as an entity funded only by DB plan sponsors has moved front and center in the pension reform debate. Private pension plans now exist to support the PBGC, a complete reversal of originally intended roles. The problem is that plan sponsors don’t want to fund the PBGC, but to provide retirement benefits for their employees.

Further, for the PBGC to be funded otherwise—for example, with general tax revenue—would not be good policy. Funding from outside the DB system would mean that those without DB plan coverage would be subsidizing a privileged few.

Eliminating termination insurance would be generally salutary for the DB system. By removing a large and growing tax on DB plans, their relative attractiveness would increase relative to defined contribution (DC) plans. Each employer could decide how to provide and fund retirement benefits based more on its own business and workforce needs, and less on the fear of becoming indirectly responsible for funding the benefits of other companies. The focus of pension reform could migrate back to providing retirement benefits, versus the current obsession with avoiding a PBGC train wreck.

This paper is organized into the following sections:

- Why is there a PBGC? (historical background and implications for today’s debate)
- Why the PBGC shouldn’t be “fixed”
- What the DB world would look like without the PBGC
- Conclusion.