

Top 50 List of Underfunded Defined Benefit Pension Plans Eliminated

On September 3, 1997, the Pension Benefit Guaranty Corporation (PBGC), the insurance program for defined benefit plans, announced that it would no longer publish the annual top 50 list of the corporate defined benefit pensions with the largest dollar amount of pension underfunding.

CIEBA and FEI's Committee on Employee Benefits (CEB) objected to the Top 50 list because it used inappropriate assumptions and criteria that inappropriately identified healthy pension plans that were backed by financially secure sponsors. The Top 50 List created unnecessary anxiety for hundreds of thousands of plan participants while masking problems in other pension plans where the pension promise may not have been as secure.

CIEBA/CEB believed that the Top 50 List should reflect the percentage of underfunding rather than the absolute dollar amount of underfunding which penalizes defined benefit plans that cover large number of employees.

PBGC's new Executive Director, David Strauss explained that "With the full implementation of the Retirement Protection Act (RPA), we now have better enforcement tools in place. Especially important is the requirement that companies with severely underfunded pension plans annually report the underfunding to workers and retirees." The RPA requires plans with a funding level below 90% to notify all pension participants and beneficiaries of the pension plan's underfunding. In addition, the Act imposes additional reporting requirements for companies with pension plans that have \$50 million or more in unfunded pension obligations and permits PBGC involvement in corporate transactions that may impact the viability of an underfunded defined benefit plan. Information on pension underfunding will still be available from the PBGC under the Freedom of Information Act.

Financial Executives Institute's Committee on Investment of Employee Benefit Assets (CIEBA) and Committee on Employee Benefits (CEB) believe the elimination of the Top 50 list is a first step in the dialogue to develop a more realistic measure of pension liabilities.

In a May 15th letter to PBGC, the FEI committees said that the 5.8 percent termination interest rate used by the PBGC for the list is seriously flawed and bears little or no relation to economic or actuarial reality. Since defined benefit plans do not all terminate at the same time and most importantly, most continue on indefinitely, the interest rate valuation assumption should instead be based on the future rate of returns on plan assets. The committees will continue to working with the PBGC as they update their assumptions on defined benefit pension liabilities