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Statement of the Shadow Financial Regulatory Committee

on

**Deterioration in the Financial Condition of the
Pension Benefit Guarantee Corporation**

December 13, 1993

On March 1, 1993, the Shadow Financial Regulatory Committee expressed concern about potential taxpayer exposure to the persistent underfunding of the Pension Benefit Guarantee Corporation (PBGC) (Statement No. 93). In that Statement the Committee discussed several design defects in the structure of the PBGC and the pension insurance system that should be remedied. Figures recently released by the PBGC reveal that the PBGC's exposure to potential loss had increased sharply in 1992 to about \$38 billion, despite recent improvements in the economy.

Recent articles in the press incorrectly suggest that changes in the reported obligations of the PBGC reflect only "paper" losses due to declines in interest rates. Furthermore, there is a suggestion that concern over the growing obligations of the PBGC is unnecessary because most companies with underfunded plans will ultimately be able to meet their pension obligations. This view creates a false sense of security. Taxpayer exposure to potential PBGC obligations has clearly increased.

In September of this year, the Clinton Administration put forward proposals to address, at least partially, several of the important causes of the PBGC's problems. These include: increasing the

required premiums paid to PBGC by the more severely underfunded plans, limiting the ability of companies with underfunded plans to continue to grant concessions to employees that increase the potential loss exposure of the PBGC, and accelerating company contributions to underfunded plans.

The Committee endorses these proposals and believes that they deserve prompt consideration and action by the Congress.