Testimony of Charles E.F. Millard, Director
Pension Benefit Guaranty Corporation
before the
Committee on Education and Labor
United States House of Representatives
October 24, 2008

Mr. Chairman, Ranking Member McKeon, and Members of the Committee: Good morning. I appreciate the opportunity to appear before the Committee today to discuss the state of the Pension Benefit Guaranty Corporation ("PBGC" or "Corporation") and the defined benefit pension system. Concern about retirement income security is certainly an important focus in these challenging economic times. I want to emphasize that, despite the current economic slowdown, PBGC will be able to meet its benefit payment obligations for a number of years to come.

The need for a pension safety net became starkly evident when, at the end of 1963, the Studebaker Corporation, then the nation's oldest major automobile manufacturer, closed down its U.S. operations and terminated its pension plan. About 4,000 workers age 40-59 lost the bulk of their pensions, receiving only fifteen cents for each dollar of their vested benefits. These individuals had an average age of 52. They had worked for the company an average of almost 23 years.

In 1974 Congress passed the Employee Retirement Income Security Act ("ERISA") which, among other pension protections, created PBGC to insure pensions earned by American workers under private-sector defined benefit plans. Today PBGC insures almost 44 million workers, retirees, and beneficiaries in over 30,000 plans. When a plan terminates in an underfunded condition – because the employer responsible for the plan can no longer fund the promised benefits – the Corporation takes over the plan as trustee and pays benefits to the full extent permitted by law.

PBGC benefit payments are important, often crucial, to the retirement income security of retirees and workers in trusteed plans, many of whom worked decades for their promised benefits. At the end of fiscal year 2007, PBGC was paying benefits to 630,000 retirees and beneficiaries in terminated underfunded plans; another 534,000 participants in these plans will become eligible to start receiving benefits in the future.

Since its establishment in 1974, PBGC has faced many challenges, including economic contraction in certain industries that traditionally have provided defined benefit pensions; inadequate minimum contribution requirements which too often have resulted in unfunded promises at plan termination; premiums that often have been inadequate to meet the financial demands placed on PBGC's insurance program; and employer shifts from defined benefit plans to defined contribution plans, which are not insured by PBGC.

Because of these challenges, PBGC has been in a deficit position for most of its existence. At the end of fiscal year 2007, PBGC had assets of $68.4 billion to cover liabilities of $82.5 billion, resulting in an accumulated deficit of $14.1 billion.[1] PBGC's financial results for fiscal year 2008 are not available at this time, because the Corporation's auditors have not completed the 2008 audit. However, PBGC staff and the auditors are working long hours to ensure that the data will be available by the annual November 15 deadline. While we expect that the deficit will be somewhat lower for fiscal year 2008, we believe that the deficit still remains in double digits – somewhere in the range of $10 to $12 billion.

Generally PBGC pays monthly pension benefits spread over the lifetimes of participants and beneficiaries, not as lump sums. As a result, PBGC has sufficient funds to meet its obligations for a number of years. Nevertheless, over the long term, the deficit must be addressed.

Defined Benefit Pensions

Private-sector defined benefit plans cover 43.8 million American workers, retirees, and beneficiaries. In a defined benefit plan, retirement benefits typically are based on a worker's earnings and years of service with the employer. Defined benefit plans insulate retirees from investment and mortality risk and are intended to be a source of stable retirement income.

Defined benefit plans are funded by employer contributions. The law prescribes minimum contribution requirements, which Congress has tightened over the years to improve plan funding. Benefits under a defined benefit plan are secure if the employer is financially healthy and can afford to make the required contributions. When an employer can no longer afford a plan, the plan is terminated and PBGC guarantees benefits, subject to legal limitations. Amounts above guarantee limits can be paid only if plan assets or recoveries from employers are sufficient to allocate to these benefits.

Thus retirement income security for the workers and retirees covered by private defined benefit plans depends on a combination of sound plan funding and a strong insurance program.

Governance and Financial Structure

PBGC is a wholly-owned federal government corporation with a three-member Board of Directors—the Secretary of Labor, who is the Chair, and the Secretaries of Commerce and Treasury. Until August 2006, ERISA provided that the Corporation was to be administered by the Chairman of the Board in accordance with policies established by the Board, and Board Chairmen appointed non-statutory executive directors who reported to the Chairman. The Pension Protection Act of 2006 ("PPA 2006") established a Senate-confirmed Director to administer the Corporation in accordance with policies established by the Board of Directors.[2] PBGC also has an Advisory Committee appointed by the President.

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[1] There was a $13.1 billion deficit in the single-employer program and a $1 billion deficit in the multiemployer program at the end of FY 2007.
[2] ERISA section 4002(a) as amended.

In May of this year PBGC's board revised the Corporation's bylaws to address concerns expressed by GAO in a July 2007 report. The new bylaws more clearly define the roles and responsibilities of PBGC's board members, representatives, director, and senior management.

PBGC operates two insurance programs, which are financially separate. The Single-Employer program covers 33.8 million workers, retirees, and beneficiaries in about 28,900 single-employer plans. The smaller Multiemployer program – which covers collectively bargained plans that are maintained by two or more unrelated employers – protects 10.0 million workers, retirees, and beneficiaries in about 1,500 multiemployer plans.

Although PBGC is a government corporation, it receives no funds from general tax revenues and by law its obligations are not backed by the full faith and credit of the U.S. government. Operations are financed by insurance premiums, assets from pension plans trusteed by PBGC, investment income, and recoveries from the companies formerly responsible for underfunded trusteed plans (generally only pennies on the dollar).

PBGC's statutorily established revolving funds receive premiums, which are invested in U.S. Treasury obligations. PBGC also has trust funds, which hold the assets of terminated underfunded plans that PBGC has taken over as trustee. The Government Accountability Office has determined that the trust funds can be invested in more varied holdings consistent with sound fiduciary principles.

PBGC pays participant benefits from its revolving funds. PBGC revolving funds are then partially reimbursed by the trust fund. This partial reimbursement results in what is referred to as "proportional funding" of benefits; that is, funded benefits are paid with trust fund assets and unfunded guaranteed benefits are paid with revolving fund assets.

PBGC's administrative expenses are also provided from the revolving fund (also subsequently reimbursed from its trust funds) and are subject to an explicit limitation on obligations through the appropriations process. PBGC's appropriations language provides certain exceptions from this limitation that allow the agency to obtain additional resources in the event of additional plan terminations. As a result of this format, PBGC neither requests nor receives any taxpayer support.

Investment Performance

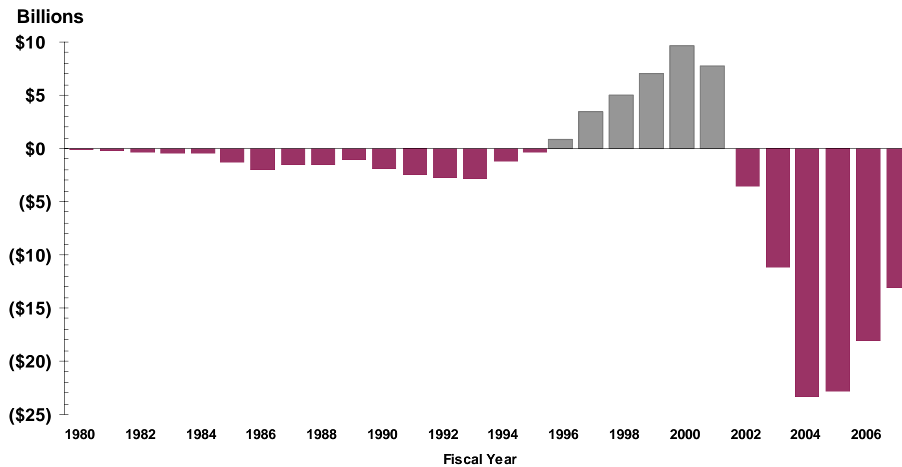
As of September 30, 2007, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash and accrued investment income, was approximately $62.6 billion. Equity securities at the end of FY 2007 represented approximately 28 percent of total assets, compared to 23 percent at the end of FY 2006. As the table below illustrates, the total return on investments was 7.2 percent in 2007, generating $4.76 billion in investment income, compared to 4.2 percent in 2006. As I noted earlier, PBGC's audited financial results for FY 2008 are not yet available. Given the recent market turmoil, however, we expect that the total return on investments in 2008 will be somewhere in the range of -6 to -7 percent.

PBGC Investment Income (Loss) **Trust and Revolving Funds Combined** ***(dollars in millions)***		
	FY 2007	**FY 2006**
Fixed	$1,753	$ 393
Equity	2,988	1,793
Other	19	(3)
Total Income (Loss)	**$4,760**	**$2,183**
Rate of Return	**7.2%**	**4.2%**

Deficit and Claims History

PBGC's operating results are subject to significant fluctuation from year to year, depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions, and other factors such as changes in law. Unfortunately, as the chart below shows, the Corporation has been in a deficit position for most of its existence.

PBGC Net Position
Single-Employer Program
FY 1980 – FY 2007



Data does not include restored LTV plans in 1986

The $13.1 billion deficit in the single-employer program at the end of FY 2007 is the difference between assets of $67.2 billion and liabilities of $80.4 billion. Liabilities include claims from actual terminations and probable terminations. Probable terminations are claims that are expected to occur and are required to be booked as liabilities under generally accepted accounting standards. Notwithstanding the $13.1 billion deficit in the single-employer program, I want to reiterate that PBGC has sufficient assets on hand to continue paying benefits for a number of years. However, with $80 billion in liabilities and only $67 billion in assets as of the end of fiscal year 2007, the single-employer program lacks the resources to fully satisfy its benefit obligations.

The large accumulated deficit that persists in the single-employer program is due to an unprecedented wave of pension plan terminations with substantial levels of underfunding in recent years. The program posted its largest year-end shortfall in the agency's 34-year history in FY 2004, when losses from completed and probable pension plan terminations totaled $14.7 billion for the year, and the program ended the year with an accumulated deficit of $23.3 billion.

The table below shows the ten largest plan termination losses in PBGC's history. Nine of the ten have come since 2001. The top ten claims are primarily from firms in the steel and airlines industries.

Top 10 Firms Presenting Claims (1975-2007) PBGC Single-Employer Program[1]						
	Top 10 Firms	Number of Plans	Fiscal Year(s) of Plan Terminations	Claims *(by firm)*	Vested Participants	Percent of Total Claims *(1975-2007)*
1.	United Airlines	4	2005	$7,503,711,171	122,541	21.5%
2.	Bethlehem Steel	1	2003	3,654,380,116	91,312	10.5%
3.	US Airways	4	2003, 2005	2,684,542,754	57,002	7.7%
4.	LTV Steel*	6	2002, 2003, 2004	2,134,985,884	83,094	6.1%
5.	Delta Air Lines	1	2006	1,740,482,711	13,028	5.0%
6.	National Steel	7	2003	1,275,628,286	33,737	3.7%
7.	Pan American Air	3	1991, 1992	841,082,434	31,999	2.4%
8.	Trans World Airlines	2	2001	668,377,106	32,275	1.9%
9.	Weirton Steel	1	2004	640,480,970	9,410	1.8%
10.	Kaiser Aluminum	7	2004, 2007	602,132,764	18,402	1.7%
	Top 10 Total	36		$21,745,804,196	492,800	62.2%
	All Other Total	3,747		13,193,241,357	1,087,787	37.8%
	TOTAL	3,783		$34,939,045,553	1,508,587	100.0%

[1] Data are preliminary.

Total claims for FY 1975-2007 also are concentrated in those industries, with about 41 percent from the airlines industry, about 36 percent from steel and other metals, about 13 percent from other manufacturing industries, and about 11 percent from all other industries.

PBGC Claims by Industry (FY 1975-2007) Single-Employer Program[1]		
Industry	Total Claims	
AGRICULTURE, MINING, AND CONSTRUCTION	**$613,939,852**	**1.8%**
MANUFACTURING	**17,308,736,681**	**49.5%**
Apparel and Textile Mill Products	1,076,787,054	3.1%
Fabricated Metal Products	1,214,284,207	3.5%
Food and Tobacco Products	303,415,234	0.9%
Machinery Manufacturing	1,158,396,474	3.3%
Primary Metals	11,499,713,070	32.9%
Rubber and Miscellaneous Plastics	359,864,357	1.0%
Other Manufacturing	1,696,276,286	4.9%
TRANSPORTATION AND PUBLIC UTILITIES	**14,582,003,027**	**41.7%**
Air Transportation	14,205,842,014	40.7%
Other Transportation and Utilities	376,161,013	1.1%
INFORMATION	**50,012,420**	**0.1%**
WHOLESALE TRADE	**429,453,930**	**1.2%**
RETAIL TRADE	**427,810,561**	**1.2%**
FINANCE, INSURANCE, AND REAL ESTATE	**793,408,855**	**2.3%**
SERVICES	**733,680,227**	**2.1%**
TOTAL	**$34,939,045,553**	**100.0%**

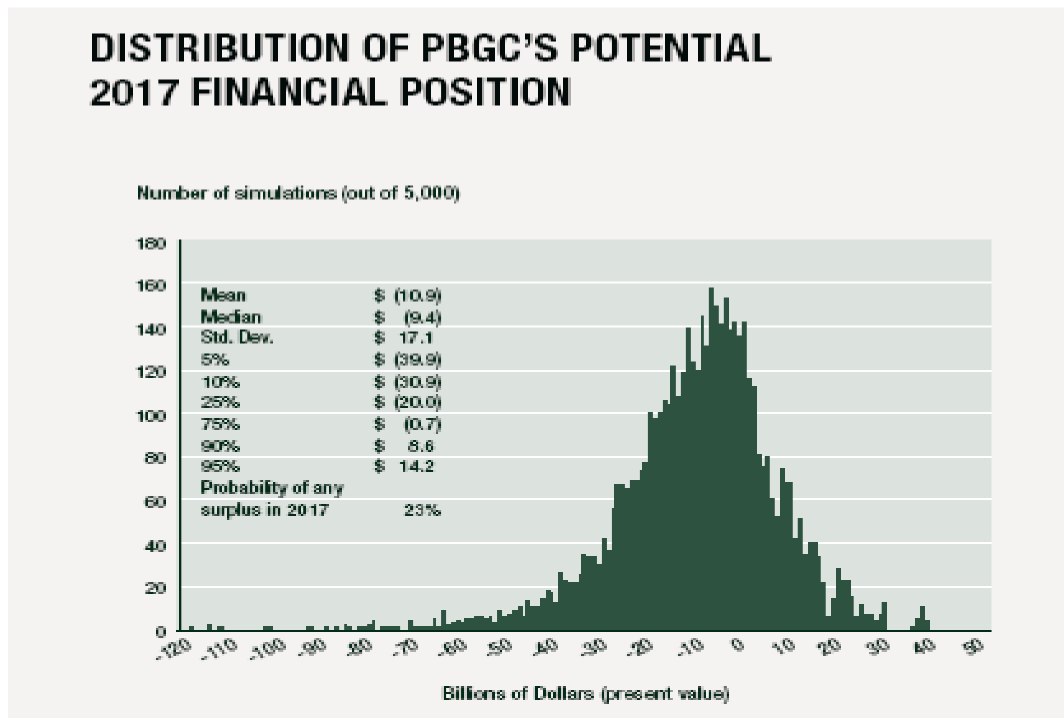
[1] Data are preliminary.

Projections

ERISA requires that PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. PBGC has historically made a 10-year forecast for the single-employer program. The forecast is made using a stochastic model—the Pension Insurance Modeling System ("PIMS")—to evaluate its exposure and expected claims. PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns).

The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. PIMS is not a predictive model and it does not attempt to anticipate behavioral responses by a company to changed circumstances.[3] PIMS starts with data on PBGC's single-employer net position (a $13.1 billion deficit in the case of FY 2007) and data on the funded status of approximately 460 plans that are weighted to represent the universe of PBGC-covered plans. The model produces results under 5,000 different simulations. The probability of any particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

Even with the improved deficits in FY 2007, and the legislated premium increases and reforms, the model showed a median and mean deficit of about $10 billion at the end of the 10-year period. Even more significantly, the model indicated that there was only a 23 percent chance that PBGC could reach full funding at the end of that 10-year period.



Source: PBGC 2007 Annual Report.

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[3] Additional information on PIMS and the assumptions used in the model are available in PBGC's Pension Insurance Data Book 1998, pages 10-17, which also can be viewed on the PBGC's Web site at *www.pbgc.gov/publications/databook/databk98.pdf*.

Underfunding Exposure

Much of the projected deficit in the PIMS model is reflective of the underfunding in covered defined benefit plans. Most companies that sponsor defined benefit plans are financially healthy and should be capable of meeting their pension obligations to their workers. But the amount of underfunding in pension plans sponsored by financially weaker employers is very substantial. Pension underfunding in non-investment grade companies is classified under generally accepted accounting standards as PBGC's "reasonably possible" of termination and is required to be reported in the notes to PBGC's financial statements.

Recent declines in the stock market have reduced the value of assets held by defined benefit plans. However, a balancing factor has been the increase in interest rates, which has the effect of reducing estimates of discounted future plan liabilities.

PBGC's reasonably possible exposure by industry for FY 2006 and FY 2007 is shown in the table below.

Reasonable Possible Exposure (Dollars in billions)		
Principal Industry Categories	**FY 2007**	**FY 2006**
Manufacturing	$31.4	$37.6
Transportation, Communication & Utilities	19.5	20.5
Services & Other	6.9	7.0
Wholesale and Retail Trade	5.8	6.1
Agricultural, Mining and Construction	1.0	1.2
Finance, Insurance and Real Estate	1.2	0.9
Total*	**$65.7**	**$73.3**

* Numbers may not add due to rounding.

At the end of fiscal year 2008, there remains substantial reasonably possible exposure in airlines and steel. Claims against PBGC's insurance program are a lagging indicator of the economy. Claims generally follow a downturn in the economy by 18 months to two years.

PBGC Actions to Address Underfunding Exposure

In 2007, as in previous years, PBGC engaged in a number of activities to safeguard the pension insurance system, including plan risk assessments, plan monitoring, and negotiation and litigation, to limit risk exposure and losses to pension plan participants and PBGC. PBGC monitored some 2,200 controlled groups, some 3,600 plans, and almost 500 bankruptcy cases. PBGC takes an active role in corporate bankruptcy proceedings on behalf of workers whose pension plans are not fully funded. PBGC encourages plan sponsors to continue rather than terminate their pension plans. When a plan is terminated, PBGC pursues recoveries of the underfunding from the plan sponsor and other related companies that are liable.

The steps PBGC has taken to protect pensions that could be adversely affected by corporate transactions or bankruptcy have made a real difference to plan participants and PBGC. And the companies that cooperated in making good on their pension promises have reason to be proud.

- Since 2005, PBGC has worked with a number of plan sponsors, including 13 auto parts companies that have emerged successfully from Chapter 11 protection without terminating their pension plans. For example, this year, Dana Corporation (53,000 participants), Solutia (19,000 participants) and Dura Automotive (4,300 participants) made contributions required by ERISA during bankruptcy and kept their plans ongoing. Other examples in prior years are Federal Mogul and Tower Automotive.

- In the spring of 2007, PBGC initiated discussions with Daimler and Cerberus that led to additional protections for Chrysler's pension plans (259,500 participants). The plans received $200 million in contributions beyond what is required by ERISA, and Daimler will provide a $1 billion guarantee for up to five years if the plans terminate.

- Delphi's bankruptcy proceedings remain ongoing, and PBGC is continuing its efforts to protect Delphi's pension plans (71,000 participants) and achieve the goal of a successful reorganization. On September 25, 2008, the bankruptcy court approved agreements under which General Motors (Delphi's former parent) will provide financial support for Delphi's restructuring, including a transfer of $3.4 billion in net unfunded pension liabilities from Delphi's hourly plan to General Motors' hourly plan. The first segment of that transfer was made on September 29, 2008, and the remaining amount will be transferred upon Delphi's emergence from bankruptcy. As part of its ongoing efforts to emerge from bankruptcy, Delphi must obtain court approval of a revised plan of reorganization and raise new capital.

As the insurer of America's defined benefit pension plans, PBGC will continue to negotiate protection for workers and retirees in transactions like those described above. These safeguarding activities provide significant protection to the defined benefit insurance system and all its stakeholders.

Pension Data

PBGC's main sources of information on underfunded pensions are the Annual Report Form 5500, which is jointly filed with Treasury, the Department of Labor, and PBGC, and reporting to PBGC under ERISA section 4010.

Form 5500

The principal governmental source of information about the 31,000 private sector defined benefit plans is the Form 5500. The statutory deadline for filing the Form 5500, which provides actuarial data as of the beginning of the plan year, is the last day of the 7th calendar month after the close of the plan year, with an automatic extension of 2.5 months upon request.

ERISA Section 4010

Section 4010 of ERISA provides more current data. Under section 4010 certain controlled groups with underfunded pension plans are required to report actuarial and financial information to the PBGC on an annual basis. This information enables PBGC to identify and monitor potential risks to the pension insurance system, to focus PBGC resources on situations that pose the greatest risks to that system, to assert appropriate claims against members of a controlled group, and to prepare its financial statements.

For information years ending in 2007, PBGC received filings for 119 controlled groups covering 313 plans. These plans reported total liabilities of $253.3 billion and total underfunding of $67.2 billion (both measured on a termination basis).

4010 filings play a major role in PBGC's ability to protect participant and premium-payer interests because the reported information is more current and more relevant than other sources of information. For example, 4010 filings are the only place where sponsors report plan underfunding measured on a termination basis. In addition, financial information is reported for all members of the controlled group, not just the plan sponsor. This is crucial information because members that do not sponsor pension plans often provide a source of recovery for PBGC claims (should any arise) that is not available to other creditors. Without reporting, PBGC might not be aware of the existence of entities with large amounts of assets.

ERISA prohibits disclosure of 4010 information, except for information that is otherwise public (e.g., public filings of financial information with the Securities and Exchange Commission). This is a specific override of the standards under the Freedom of Information Act (FOIA). There are also narrow exceptions for information formally requested by authorized committees of Congress and for litigation. The PBGC may disclose aggregate data for a group of filers as long as the aggregation is large enough so that no one can identify the information of specific filers.

Prior to PPA, the requirement of section 4010 reporting applied if aggregate unfunded vested benefits in the controlled group exceeded $50 million ("gateway test"). PPA changed the 4010 gateway test from a dollar-based test to a percentage-based test.

Under PPA, filing is required if one (or more) plans in the controlled group has a funding percentage below 80%. As a result of this change, many long-time filers with plans that are underfunded by significantly more than $50 million will no longer have to file. Because these are the plans that PBGC is most concerned about, the PPA changes greatly diminished the usefulness of 4010. Many mid-sized plans with low funding percentages but relatively low dollar amounts of underfunding will have to file 4010 information for the first time. Consider these two plans:

	Plan A	Plan B
Assets	$420 million	$380,000
Liabilities	$500 million	$500,000
Underfunding	$80 million	$120,000
Funding percentage	84%	76%

Under pre-PPA law, Plan A would have been required to report 4010 information, but Plan B would not. Under PPA, the result is reversed; despite an $80 million underfunding, Plan A does not report 4010 information, but Plan B with only $120,000 in underfunding does. To reduce the burden on the thousands of very small plans with a funding percentage below 80%, PBGC proposed a regulation on February 20, 2008, to waive the filing requirement for cases where underfunding is less than $15 million.

2006 Pension Reforms

In 2005, the Administration proposed a comprehensive package of pension reforms to shore up PBGC and strengthen funding in ongoing defined benefit plans. During 2006, legislation incorporating some of these reforms was signed into law: the Deficit Reduction Act of 2005 ("DRA 2005"), enacted on February 8, 2006, and the Pension Protection Act of 2006, enacted August 17, 2006.

Premiums

The provisions of the 2006 legislation that have the most immediate effect on PBGC are the premium provisions. The new law increased both the single-employer and multiemployer flat-rate premiums.

Until the enactment of DRA 2005, the flat-rate premium had remained unchanged for single-employer plans since 1991 and for multiemployer plans since 1989. DRA 2005 changed the per-participant flat-rate premium for plan years beginning in 2006 to $30 (from $19) for single-employer plans and to $8 (from $2.60) for multiemployer plans, and provides for inflation adjustments to the flat rates for future years. The inflation-adjusted per-participant flat-rate premium for 2008 is $33 for single-employer plans and $9 for multiemployer plans.

PPA 2006 kept the variable-rate premium paid by single-employer plans at $9 per each $1,000 of unfunded vested benefits and conformed the measurement of underfunding to the PPA changes to the plan funding rules. PPA 2006 also eliminated the full-funding limit exemption from the variable-rate premium, which was a loophole under prior law.

The President's FY 2009 budget again called upon Congress to grant PBGC's Board of Directors the ability to adjust premiums in order to eliminate PBGC's $14 billion deficit over a reasonable period of time and better safeguard workers' benefits. Moreover, under current law, PBGC is required to charge the same premiums regardless of the financial health of the plan's sponsor. Normally, insurance is provided by institutions that are able to underwrite risk, and PBGC should be permitted to assess its premiums in this way. Some

level of risk-based premium-setting authority would allow PBGC to quantify and be better prepared to confront the risks it faces.

DRA 2005 created a new ''termination premium'' that is payable in the event of certain distress and involuntary plan terminations of underfunded single-employer plans that occur after 2005.[4] The premium is $1,250 per participant per year and is payable for three years following the termination. For plans that terminate while the sponsor is in bankruptcy, payment is deferred until the sponsor emerges from bankruptcy. Flatware maker Oneida Ltd., which terminated an underfunded plan while in a chapter 11 reorganization proceeding, asserts that all of its pension plan obligations, including the termination premium, were discharged in bankruptcy. The 2nd Circuit Court of Appeals has agreed to hear PBGC's argument that the Deficit Reduction Act of 2005 requires payment of the termination premium. The appeals court may take up the case by year end.

Funding

PPA 2006 contains funding reforms that first apply to contributions for plan years beginning in 2008. We look forward to these reforms taking hold but it is too early to tell what effect they will have on the funded status of plans that constitute reasonably possible terminations.

Generally, the current financial turmoil has no impact on the dollar amount of required contributions for plan sponsors for the 2008 plan year because those requirements are based on assets at the beginning of the 2008 plan year. Also, final 2008 contributions are not due until September 2009.

The 2009 funding requirement will be based on the asset value at the beginning of 2009. While plans that were heavily invested in equities may be facing larger contributions for 2009 than originally anticipated, it is important to note that investment losses are amortized over seven years and will be offset by the amortization of investment gains in subsequent years. Additionally, because quarterly contributions are capped at 25 percent of the prior year's required contributions, contributions for 2009 for most employers will not be affected by the current financial turmoil until September 2010.

While generally trying to improve plan funding, Congress also provided funding relief to certain airlines, allowing them to defer the accelerated funding requirements. This funding relief resulted in certain large plans previously classified as probable terminations being changed to the reasonably possible classification in FY 2006. If PBGC's deficit were calculated without regard to PPA 2006 airline relief provisions, PBGC estimates that its net deficit for FY 2007 would have been approximately $8 billion higher (assuming 2006 underfunding levels for the specific airline plans remained constant).[5] The airline underfunding remains a potential claim against the insurance program that may be expected to grow over time.

[4] PPA 2006 make changes to the termination premium rules of DRA permanent.
[5] *PBGC FY 2007 Annual Report*, page 17.

New Investment Policy

At the end of FY 2007, PBGC had total assets of $68.4 billion, of which $55 billion were investible assets. How those funds are invested is a very significant factor in the ability of the Corporation to meet its long-term obligations to the people who look to us for payment of benefits.

PBGC's investment policy was due for Board review in February 2008, so in mid-2007, PBGC initiated an independent review of PBGC's investment policy in light of PBGC's financial condition and long-term financial needs. We hired an independent consultant that had never worked with PBGC before to conduct a comprehensive review of our long-term liabilities and our asset allocation. This process included the consideration of dozens of possible portfolios under thousands of possible scenarios. During the process, our consultant or PBGC officials met or consulted multiple times with PBGC's Advisory Committee and PBGC's Board Representatives.

After full consideration, PBGC's Board of Directors unanimously adopted a new diversified investment policy on February 12, 2008.

The prior policy gave us only approximately a 19% chance of getting out of our deficit in the next ten years, and that the new policy would give us approximately a 57% chance of achieving that goal. The new policy is designed to take advantage of PBGC's long-term investment horizon, and will allocate 45 percent of Corporation assets to equity investments, 45 percent to fixed income, and 10 percent to alternative investments such as private equity. This long-term, more diversified strategy aims at generating better returns that provide a greater likelihood that the Corporation can meet its long-term obligations.

Portfolio Rebalancing

PBGC will seek to rebalance the investment portfolio at least semi-annually in order to keep its asset allocation consistent with this Investment Policy. The specific timing and size of the rebalancing process will depend upon the liquidity needs of the Corporation, the cost of the rebalancing, anticipated receipt of assets from newly trusteed plans and projected premiums.

Implementation

PBGC has developed a plan for gradual implementation of the new policy to prevent any disruptions in financial markets. The Board Representatives have been deeply involved in crafting the new investment policy and will continue to oversee its implementation. I have established a new Chief Investment Officer position responsible for putting the new investment policy into place and overseeing the Corporation's investment portfolio. The Chief Investment Officer will take the lead in forecasting changes in volume, fund mixes and scheduled maturities of investments and will supervise the Corporation's investment managers.

Operational Improvements

PBGC is making various operational improvements, some of which I have already noted. In July PBGC was removed from the OMB Management Watch List because of the agency's sustained efforts to improve IT project management and to resolve outstanding IT security deficiencies. We also embarked on a program to make constant improvement our goal and part of PBGC's corporate culture. The program is being met with enthusiasm by PBGC's employees. I should note that PBGC always earns high marks in its customer service surveys. PBGC also is rated as one of the top 10 small federal agencies to work for, which also reflects the shared customer focus of its employees and management. We filled management vacancies and are working on succession planning and the new performance management system. PBGC received its 15th consecutive unqualified audit opinion for FY 2007 and is currently working on achieving its 16th for FY 2008.

Conclusion

Companies that sponsor pension plans have a responsibility to live up to the promises they have made to their workers and retirees. But when a company can not keep its promises, workers and retirees need a strong insurance program as a safety net. We are building on the 2006 reforms and making internal improvements to strengthen the safety net.

Thank you, Mr. Chairman. I would be happy to answer questions.