

Pension Funding Reality Check: Why the Current Rules Obscure the True Funded Status

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Abstract

Several companies in the airline industry are considering the termination of their defined benefit plans, which could result in billions of unfunded liabilities being dumped upon the Pension Benefit Guaranty Corporation (PBGC). Faced with these impending liabilities, Bradley Belt, the PBGC's executive director, has called for comprehensive pension reform to strengthen the funding of the defined benefit system.

An analysis of the recent actuarial filings of one of the troubled airlines shows that the dire financial health of its plans was obscured by misleading data that indicated that the plans were not severely underfunded and that no contributions were required. Although the filings were technically in compliance, they showed how ineffective this information is for disclosing the true funding status. If a better measure of funding status had been required, additional contributions would have been made, and the financial distress facing the company, its participants, and the PBGC would not have been so severe.

This paper presents this analysis and proposes guiding principles for a simpler, more effective funding system that would better serve plan sponsors, their participants, the regulating agencies, and the general public. The objective of the new system would be to have plan assets funded at termination liability over a reasonable period of time.