

# Q&A with the PBGC's Bradley Belt

## The new executive director talks about the major reforms that need to be made to ensure the health of pension systems

Bradley Belt became executive director of the Pension Benefit Guaranty on Apr. 21, and while still new to the job, he's familiar with the agency's many challenges. His Washington experience includes a stint on the Social Security Advisory Board, to which he was appointed by President Bush. He has also served as legislative director to Senator John McCain (R-Ariz.) and counsel to Securities & Exchange Commissioner Charles Cox.

Belt will need all his political acumen and financial wherewithal to lead the PBGC, which has a current deficit of \$9.7 billion and last year paid out \$1.5 billion more in benefits than it received in income. With rising concern about the health of airline pension plans, the PBGC, which is funded by premiums charged to insured plans, not taxpayers, may be headed for an eventful couple of years. In late May, *BusinessWeek* Senior Writer [Nanette Byrnes](#) interviewed him by e-mail. Edited excerpts from their exchange follow:

**Q: Why did you decide to take on this role?**

**A:** This job is a chance to make a difference on an issue I've been passionate about for years - retirement security. I think the toughest part will be persuasively making the case for reform. The challenges facing defined-benefit plans are by nature long term, and in policy debates it's often the case that the future has no constituency. It's difficult to bring urgency to those kinds of issues.

**Q: Much of what has come out of the PBGC in terms of congressional testimony and published reports seems to reflect concern over the state of the corporate-sponsored defined-benefit system. But some argue the worse may be past. Is that true?**

**A:** By our calculations, total underfunding in the defined-benefit system is still around \$400 billion, the largest amount ever recorded and eight times higher than the \$50 billion we saw in 2000. Of that \$400 billion, more than \$80 [billion] is in pension plans sponsored by companies with junk-bond credit ratings, which are at higher risk of defaulting on their obligations.

Given the structural weaknesses in the funding rules, we can't be confident that plans at the greatest risk of terminating will get adequately funded before the company fails. The strengthening economy will have a positive impact. [But] without fundamental changes, the possibility of a taxpayer bailout will continue to exist.

**Q: What's the biggest problem facing traditional pension plans?**

**A:** There are many challenges facing the defined-benefit pension system. I would note that a particular threat is inflexible funding rules for healthy plan sponsors coupled with weak funding rules for financially troubled plan sponsors.

Healthy companies need incentives to remain in the defined-benefit system, which has seen the number of plans plummet from more than 112,000 in 1985 to fewer than 30,000 today. The last thing healthy companies need is to be forced to pay for the unfunded promises of others, and that's what will happen unless we strengthen the funding rules for plans at the greatest risk of terminating.

**Q: Doesn't the recent congressional funding relief for airlines and steel companies mean some of the most risky funds are now in greater danger of ending up with the PBGC? Are certain companies with pension plans and deficits now so big that the PBGC couldn't handle their collapse?**

**A:** PBGC is on record as having expressed concern that it would worsen underfunding in shaky plans. The Administration opposed that provision from the start and even threatened to veto the bill over it. The provision ultimately had to be accepted to ensure that responsible plan sponsors got the interest rate correction they needed.

As for plans with deficits so big PBGC couldn't handle it, as I noted, there's more than \$80 billion of underfunding in the plans of financially weak companies. Obviously the PBGC couldn't handle all those claims at the same time, but nobody is suggesting we would have to, either. Our modeling projects a median deficit for the single-employer pension insurance program of \$16.2 billion in 2013.

**Q: Why don't employers start defined-benefit pension plans anymore?**

**A:** You'll hear many answers to that question, from complexity to cost to competitive pressures. One explanation I think deserves more attention is the fact that workers don't place a high value on these plans. Companies have to vie for the best and brightest, and if workers start demanding defined-benefit plans, labor markets will adjust.

That said, we also need to ensure that defined-benefit plans enjoy a level playing field. They need to be an economically and regulatorily viable option for employers and employees, and the evidence suggests they aren't currently.

**Q: The steel industry restructured itself in large part by removing a lot of its pension obligations through the PBGC. Is that the way the PBGC was intended to function?**

**A:** You won't find anything in ERISA [the Employee Retirement Income Security Act] that says the PBGC should help particular industry sectors. However, if you look at PBGC's claims, fully 72% have come from just two industries, airlines and steel.

Those industries represent less than 5% of insured participants. The result is that companies with well-funded plans are supporting the pension obligations of companies whose plans the PBGC has trusteeed.

**Q: What do you think the U.S. retirement system will look like in 10 or 20 years?**

**A:** Unless we simplify the system for healthy companies and strengthen it for troubled companies, I fear the steady decline of defined-benefit plans will continue. The good news is that I think these changes are possible, and that's what we've been hard at work on.

With respect to the PBGC, stronger funding rules for at-risk plans are necessary to control claims, and we also need to reexamine the premium structure to see if we can more accurately reflect the risk that individual plans pose to the system. If we can get those two things right, I think the defined-benefit system and the PBGC can be viable for the long run.