

The Safety of Your Pension

(11/20/08)

With the current state of the automotive industry, among other industries adversely impacted by this economic environment, some clients have expressed concerns about the safety of their employer provided pension benefits.

First, it is important to remember that the pensions are protected by ERISA law (Employee Retirement Income Security Act of 1974). In the event of financial distress, creditors have no claim on the assets in a company's traditional pension plan or 401(k) plan.

Most pensions are insured by the Pension Benefit Guaranty Corporation (PBGC). The PBGC insures the retirement benefits of nearly 44 million Americans in 30,460 pension plans.

Since 1974, when Congress created PBGC to guarantee payment of defined benefit pensions, some 1,183,000 workers and retirees in 3,793 terminated pension plans, and 122,000 participants in multiemployer plans receiving financial assistance, have come to rely on PBGC for their retirement income.

What is the Pension Benefit Guaranty Corporation?

PBGC is a federal agency created by the Employee Retirement Income Security Act of 1974 (ERISA) to protect pension benefits in private-sector traditional pension plans known as defined benefit plans. If your plan ends (this is called "plan termination") without sufficient money to pay all benefits, PBGC's insurance program will pay you the benefit provided by your pension plan up to the limits set by law.

Although PBGC insures most defined benefit plans, some are not covered. For example, plans offered by "professional service employers" (such as doctors and lawyers) with fewer than 26 employees, by church groups, or by federal, state or local governments usually are not insured.

The employer can end the plan in a **standard termination** but only after showing PBGC that the plan has enough money to pay all benefits owed to participants. The plan must either purchase an annuity from an insurance company (which will provide you with lifetime benefits when you retire) or, if your plan allows, issue a lump-sum payment that covers your entire benefit.

If your employer goes into bankruptcy, or applies to the PBGC that they cannot remain in business unless the plan is terminated, a **distress termination** occurs.

How much is insured?

Any amounts not insured are subject to loss. If the plan assets will cover more than the minimum PBGC amounts, you may receive benefits greater than the PBGC insured amounts.

PBGC guarantees "basic benefits" earned before your plan ended, which include:

- Pension benefits at normal retirement age
- Most early retirement benefits
- Annuity benefits for survivors of plan participants
- Disability benefits for disabilities that occurred before the date the plan ended

PBGC does not guarantee:

- Severance benefits
- Health and welfare benefits or Vacation pay
- Lump-sum death benefits for a death that occurs after the date the plan ended
- Disability benefits for a disability that occurs after the date the plan ended

- If your plan was created or amended to increase benefits within five years before it ended, your benefits may not be fully guaranteed.
- Generally, PBGC does not guarantee any monthly pension amount that is greater than the monthly benefit your plan would have provided if you had retired at your normal retirement age.

PBGC Maximum Monthly Guarantees for Plans Terminating in 2009		
Age	2009 Straight-Life Annuity	2009 Joint and 50% Survivor Annuity
65	\$4,500.00	\$4,050.00
64	\$4,185.00	\$3,766.50
63	\$3,870.00	\$3,483.00
62	\$3,555.00	\$3,199.50
61	\$3,240.00	\$2,916.00
60	\$2,925.00	\$2,632.50
59	\$2,745.00	\$2,470.50
58	\$2,565.00	\$2,308.50
57	\$2,385.00	\$2,146.50
56	\$2,205.00	\$1,984.50
55	\$2,025.00	\$1,822.50
54	\$1,935.00	\$1,741.50
53	\$1,845.00	\$1,660.50
52	\$1,755.00	\$1,579.50
51	\$1,665.00	\$1,498.50
50	\$1,575.00	\$1,417.50
49	\$1,485.00	\$1,336.50
48	\$1,395.00	\$1,255.50
47	\$1,305.00	\$1,174.50
46	\$1,215.00	\$1,093.50
45	\$1,125.00	\$1,012.50

**Information from pbgc.gov*

Examples:

Retiree

Age 65 (at bankruptcy) Current Pension \$75,000

The maximum PBGC coverage will be determined by the retiree's age as of the employer's bankruptcy. For 2009 a 65 year-old retiree's maximum benefit is \$54,000, or \$48,600 for 50% Joint and Survivor benefits.

Retiree

Age 60 (at bankruptcy) Current Pension \$33,000 plus a Supplemental benefit of \$5,000

For 2009, a 60 year-old retiree's maximum benefit is \$35,100. Supplemental benefits may or may not be covered.

Current Employee

Age 55 Accrued Benefits \$48,000 Retirement Age 60

Maximum PBGC coverage is \$35,100, or \$31,590 for 50% Joint and Survivor benefits.

Current Employee

Age 55 Accrued Benefits \$30,000 Retirement Age 60
Buyout Offer increases Pension Benefits paid to \$33,000

Maximum PBGC coverage is \$30,000. Pension benefits attributable to severance benefits are not covered.

Current Employee

Age 45 Accrued Benefits \$20,000 Retirement Age 60
Projected Benefits at Retirement Age \$45,000

The maximum PBGC coverage will be \$20,000.

**All examples assume the employer files for bankruptcy in 2009*