



Pension Benefit Guaranty Corporation

Office of Inspector General

Evaluation Report

***Update On The Length Of Time
It Has Taken PBGC To Issue
Initial Determination Letters***

March 31, 2000

2000-4/23140-1



25 Years of
Pension Protection

Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of Inspector General

March 31, 2000

The Honorable Charles E. Grassley
Chairman
Special Committee on Aging
United States Senate
Washington, DC 20510-6400

The Honorable Christopher Bond
Chairman
Small Business Committee
United States Senate
Washington, DC 20510-6350

The Office of Inspector General (OIG) conducted a multi-year review of how long it has taken the Pension Benefit Guaranty Corporation (PBGC) to issue initial determination letters (IDL). On March 2, 1999, we issued *The Length Of Time It Has Taken PBGC To Issue Initial Determination Letters*, OIG Report 99-3/23128-2, that analyzed IDLs issued between 1974 and 1996. Although PBGC generally agreed with that report's findings, they did not agree that the results fairly portrayed the status of current operations.

At the conclusion of that report, the OIG stated that we would continue to monitor PBGC's progress on the timely issuance of IDLs. As a result, we conducted follow-on evaluation work to review IDLs issued from October 1, 1993 through September 30, 1999 (fiscal years (FY) 1994-1999), including addressing issues raised in our prior report for the IDLs issued in these years.

SUMMARY OF RESULTS

Our review found that PBGC significantly improved in the length of time to issue an IDL after the actuarial valuation process is completed. In our report 99-3/23128-2, we found that only 39% of the IDLs were issued within one year of the Actuarial Valuation Completion Date (AVCD). During FY 1999, we noted that approximately 86% of IDLs were issued within a comparable one year period.

However, our review revealed that PBGC continues to issue approximately one-half of the IDLs more than seven (7) years after the Date of Trusteeship (DOTR). In FY 1998 the percentage was 51.9%, and in FY 1999, it was 49.1%. We also reviewed PBGC's assertion that the average age of IDLs issued in FY 1998 was 5.39 years after DOTR, and in FY 1999 the average was 5.7 years. Our analysis confirmed that these averages were substantially correct. In addition, we noted that PBGC uses a standard averaging method that, when applied, tends to mask the number of IDLs that take longer to process.

BACKGROUND

PBGC is a government corporation created under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) to insure certain defined benefit pension plans. As set forth in ERISA, PBGC has the following responsibilities:

- Encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants;
- Provide for the timely and uninterrupted payment of pension benefits to participant and beneficiaries under plans covered under Title IV; and
- Maintain premiums at the lowest level consistent with carrying out its obligations.

At September 30, 1999, PBGC was trustee, or in the process of becoming trustee, of 2,785 terminated pension plans. One of PBGC's responsibilities under ERISA is to ensure the uninterrupted payment of pension benefits to plan participants. PBGC calculates the actual benefit to be paid to each participant according to the specific terms of the participant's plan, statutory guarantee levels, and the funds available from plan assets and employer recoveries. PBGC uses the IDL to notify participants of the official decision regarding entitlement to, amount of, and other conditions of a benefit.¹ The Insurance Operations Department (IOD) is responsible for the benefit determination process, including issuance of IDLs.

OBJECTIVE, SCOPE AND METHODOLOGY

The review objective was to update our prior report on the length of time taken to issue IDLs (see *OIG Report 99-3/23128-2*). In that report the IDLs reviewed were selected from plans where the DOTR ranged from 1974 through 1996 and where at least one IDL was issued to a plan participant. For this follow-on work, our original scope was for the period FY 1994 through FY 1998. Based on the availability of current IDL production data, we expanded our evaluation scope to include FY 1999.

To conduct our review we obtained an electronic copy of PBGC's participant database known as the Participant Records Information Systems Management (PRISM). We separated the IDL data that met our evaluation criteria into three data groups for detailed analysis.

- The first group was from the period FYs 1994 through 1997 and included 155,969 IDLs.
- The second group was from FY 1998 and included 58,638 IDLs.
- The third group covered FY 1999 and included 66,316 IDLs.

¹ For more detail on PBGC's benefit determination processing and issuance of IDLs, see *OIG Report 99-2/23128-1, Improvements Are Needed To Achieve Better Efficiency And Effectiveness In PBGC's Benefit Determination Process*, and the predecessor report *OIG Report 99-3/23128-2, The Length of Time It Has Taken PBGC to Issue Initial Determination Letters*.

Using PRISM data, we selected and used the DOTR and the AVCD to compute the lengths of time taken by PBGC to issue IDLs to participants. The DOTR was selected because PBGC uses this date to calculate and subsequently report the average length of time it takes to issue IDLs to participants.² The AVCD date was selected because, at this point in the benefit determination process, the analysis of participant information has been completed and each participant's final benefit amount has been determined.

In total, we analyzed 280,923 IDLs issued to measure the length of time between DOTR and the date PBGC issued the IDL. In addition, we performed comparison tests by FYs between the number of IDLs that PBGC reported it issued versus the number of IDLs recorded in the PRISM database.

In addition, we conducted reliability testing of the IDL data residing in PRISM. Using Audit Command Language (ACL), we selected two statistical samples. The first sample was for the period FY 1994 through 1997, and the second sample was for FY 1998. The IDL samples were drawn from the relevant population using a random sampling technique. Our sample sizes were based on a 90 percent confidence level with a tolerable error rate of 5%. Using our IDL samples, we tested for support documentation maintained in the Imaging Processing System (IPS). The tests for source document availability and data accuracy were not performed on FY 1999 IDL data.

We analyzed the software script and output data used by PBGC to compute various performance measures such as "length of time to issue an IDL." Further, we studied prior performance measure results generated from the script for accuracy and validity.

We did not perform any testing of balances, transactions, procedures, or internal controls as part of this review. We did not perform any control testing of PBGC electronic data processing systems from which IDL information was extracted. We engaged PricewaterhouseCoopers to assist in performing various analyses of the data provided by PBGC.

TIMING OF IDL ISSUANCE SHOWS MIXED IMPROVEMENT

We noted that PBGC has improved in the length of time to issue an IDL after the actuarial valuation is completed. For example, in our prior report, we found that only 39% of the IDLs were issued within one year of the AVCD. Applying these criteria to FY 1999 data, we found a marked improvement (approximately 86%) in the number of IDLs issued within one year of AVCD.

In addition, the results of our prior report indicated that PBGC issued approximately 46% of the IDLs in 7 or more years. Of these, almost 26% of IDLs were issued between 7 to 9 years, and about 20% took 10 years or more. Our follow-on work disclosed that PBGC reduced the number of IDLs issued that were more than 10 years after DOTR. For example,

- from FYs 1974-1996, about 20% of IDLs issued were more than 10 years old;
- from FYs 1994-1997, approximately 28% of IDLs were issued

² One of PBGC's performance outcomes is to provide accurate IDLs to participants within 3 to 5 years of plan trusteeship by FY 2002. In order to measure performance against the goal, PBGC publishes statistics regarding timeliness of IDL issuance. Though the performance outcome is not stated as an average, the published length of time is expressed in terms of a FY average. The FY average is computed by summing the length of time elapsed between DOTR and date of issuance for all IDLs issued during the particular FY. The resulting total is then divided by the number of IDLs issued for the FY.

- at least 10 years after DOTR; and then
- in FY 1999, fewer than 2% of IDLs issued were 10 years or older.

However, based on our evaluation testing of PBGC maintained data, we confirmed that PBGC still requires 7 or more years to issue a significant number of the IDLs. As illustrated in *Table 1*, below, we found that PBGC took between 7 to 9 years to issue:

- approximately 49% of the IDLs in FY 1999;
- almost 52% of IDLs during FY 1998; and
- more than 57% of the IDLs during the period FY 1994 through FY 1997.

As reported in a prior OIG evaluation in 1994, the General Accounting Office estimated that it took approximately 66 months (5.5 years) to issue an IDL.³ At the close of FY 1999, PBGC stated that the average length of time to issue an IDL was 5.7 years. With the exception of IDLs from plans that had been trustee 10 years or more, we could not validate an improvement in the time taken to issue an IDL.

Table 1 - Length Of Time To Issue Initial Determination Letters (IDL) From Dates Of Trusteeship (DOTR)

Fiscal Periods	Number of IDLs Issued	0 to 3 Years	4 to 6 Years	7 to 9 Years	10 or More Years
FYs 1974 - 1996 ⁴	87,000	26.6 %	27.8%	25.7%	20.1%
FYs 1994 - 1997	155,969	12.5%	30.4%	29.5%	27.6%
FY 1998	58,638	29.8%	18.3%	46.4%	5.5%
FY 1999	66,316	11.8%	39.1%	47.4%	1.7%

DATA RELIABILITY

From our review we identified concerns pertaining to participants' IDL data maintained on two PBGC information systems -- PRISM and IPS.⁵ PBGC uses information from PRISM for a variety of operational purposes, i.e., to pay benefits, to calculate the Present Value of Future Benefits Liability and to answer participants' questions about their benefit calculations.

For our testing, we compared the IDL dates recorded in PRISM to the IDL dates in source documents maintained in IPS. For FY 1998, our sample consisted of 105 IDLs from the 58,638 issued. For FYs 1994-1997, we reviewed 206 IDLs from the 155,969 IDLs

³ See OIG Report 95-1/23087, *Evaluation of the PBGC Benefit Determination Process*, referencing a May 17, 1994 General Accounting Office (GAO) Briefing for the PBGC Executive Director on Benefit Overpayments and Recoupments.

⁴ The number of IDLs tested in our prior report was 86,936, which we rounded to 87,000 (see OIG Report 99-3/23128-2). For that review, the universe of plans covered the period 1974 through 1996. From that universe, which included 1,715 plans that were trustee by PBGC, we selected 60 plans for further study. The trusteeship dates of the 60 plans in our sample ranged from 1974 through 1991. The dates of the issued IDLs, however, ranged from 1974 through 1996.

⁵ IPS is an electronic equivalent of the paper systems traditionally used by PBGC and was implemented to provide an electronic alternative for document archival and retrieval.

issued. The results of our testing showed an improvement. For example, for the period FY 1998, we could not locate 4.8% of our sample IDLs in IPS. This was a better result than our FYs 1994 - 1997 sample that could not locate 55 out of 206 IDLs (26.3%).

In addition, we found data reliability concerns with the number of IDLs that PBGC reported as actually issued, as compared to the number of IDLs recorded by PBGC on the PRISM database. At the end of each fiscal year, PBGC reports the number of IDLs issued for that year. For example, PBGC stated that 61,104 IDLs were issued during FY 1998. Our review of PRISM IDL data shows that this reported number did not match the IDL numbers contained in PBGC's database for the same time period. *Table 2* provides data for FYs 1994 through 1999 showing the differences in IDL counts between PBGC's published IDL numbers matched with PRISM IDL numbers.

Table 2 - Comparison By Fiscal Year Of Issued Initial Determination Letters (IDL) As Reported To Data Maintained On PRISM

Fiscal Periods	IDLs Reported As Issued	IDLs Data In PRISM	Difference In IDL Counts
1994	25,557	21,573	3,979
1995	65,191	28,232	36,959
1996	65,978	40,290	25,688
1997	69,011	65,874	3,137
1998	61,104	58,638	2,466
1999	67,657	66,316	1,341

Further, our follow-on evaluation work identified a new data reliability concern. We noted that the number of IDLs reported as issued by PBGC and the number it used to compute the average length of time to issue IDLs did not match.

During FY 1998, PBGC used a manual system to track the number of IDLs issued and used PRISM data to compute the average length of time to issue an IDL for that year. In FY 1998, PBGC reported 61,104 IDLs were issued (see *Table 2*). On September 30, 1998, PBGC computed the length of time to issue an IDL by running a PRISM script. However, when we analyzed the PRISM script and ran it during our test, we determined that PBGC used only 50,658 IDLs to compute the average IDL issuance time in FY 1998—not the 61,104 IDL count PBGC reported. The 10,446 IDLs that were missing from the FY 1998 calculation were recorded in the database after the PRISM script was executed. PBGC did not match and reconcile the relevant IDL data for FY 1998 prior to computing the average age of IDLs issued.

Then, our test of the FY 1999 data disclosed that the number of IDLs used in the calculation was greater than the reported number of issued IDLs. In FY 1999, PBGC reported that it issued 67,657 IDLs. However, PBGC used 72,045 IDLs in computing the yearly average age of the IDLs.

Based on our work, we raise concerns about the reliability of PBGC's published data of the number of IDLs issued in each FY and the average length of time to issue those IDLs. The data reliability concerns are based on the failure to match and reconcile the IDL production data with that captured in the PRISM script that computes the yearly average. The absence of this matching could result in inconsistencies when comparing the average length of time to issue an IDL from one year to the next.

CONCLUSION

In updating our prior report, we are reporting some improvements -- a reduction in time required to issue IDLs after completion of the actuarial valuation process, and a marked decrease in the number of IDLs in the "10 Years And Over" category for FY 1999. However, using PBGC data, we could not validate an improvement in the overall length of time taken to issue IDLs (see graphic presentation in *Table 1*). In addition, we continued to encounter data reliability problems in this follow-on work. We have detailed the result of our evaluation about data reliability in the PRISM.

We conclude that the results of our follow-on work are consistent with the findings in our first report, and fairly portray the status of current PBGC operations.

SUGGESTIONS FOR IMPROVEMENT

To clearly report on the length on time it takes to issue an IDL, we propose that PBGC periodically report actual issuance IDL data, using our report methodology in *Table 1*, to provide the detailed information that supports the yearly IDL issuance average PBGC already publishes.

As we suggested in our prior report, PBGC should conduct a self-review of its processing controls for capturing, maintaining and reporting IDL data.

AGENCY COMMENTS AND OIG EVALUATION

Although the Report contains no findings or recommendations, a draft was provided to the agency for comment. We also met with PBGC officials to discuss the Report. PBGC provided written comments, which are at *TAB 1*. We note that PBGC did not disagree with the Report's content.

In general, PBGC's comments were prospective and discussed future agency actions. PBGC commented several times that this Report contains historical data, or that it focuses only on the average age of the IDLs issued in the past. Our audits and evaluations review the facts relating to the agency's completed actions. Professional standards prevent us from drawing conclusions about events that have not yet happened and may never happen. This review is timely as it is based upon information for the most recently completed fiscal year.

We also note that this Report updates only OIG Report 99-3/23128-2, *The Length Of Time It Has Taken PBGC To Issue Initial Determination Letters*. In its response, PBGC indicated that this Report updated two prior OIG reports.

Upon our review of the agency's memorandum, we noted some statements that we believe warrant specific comment -- the accuracy of PBGC's inventory of unissued IDLs, data reliability issues concerning PRISM, IPS and IDL tracking, and statutory changes. Our evaluation of these statements follows.

1. Inventory of IDLs

In its comments, PBGC stated that in 1993, "[t]he agency had an inventory of 300,000 unissued IDLs which represented at least a 12 year inventory of work." PBGC further stated that this inventory has been significantly reduced and the current inventory of IDLs is "under 190,000" (see *TAB 1*, at 1-2). We question the accuracy of these inventories.

In OIG Report 99-2/23128-1 (March 2, 1999), *Improvements Are Needed To Achieve Better Efficiency And Effectiveness In PBGC's Benefit Determination Process* (*Efficiency and Effectiveness* report), we reported that:

PBGC could not accurately determine the universe of IDLs yet to be issued. Currently, the number of IDLs to be issued is an estimate because the exact number has not been determined. The universe of IDLs is comprised of an estimated balance derived from the predecessor system to PRISM and is adjusted for current IDL activity (adding IDLs for recently terminated plans and subtracting IDLs issued).

In its comments to that report, PBGC did not disagree with this determination. PBGC may be better able to track the number of IDLs it issues now, but the agency's inability to determine an accurate balance from its predecessor system impacts directly upon the veracity of the reported inventories.

2. Data Reliability

A. PRISM

In its comments, PBGC stated that, prior to PRISM becoming operational in the fall of 1998, "PBGC had no automated data base to track non-financial participant information" (see TAB 1, at 4). Before PRISM was implemented, PBGC contracted with State Street Bank (SSB) to maintain the agency's participant data on SSB's Pension and Lump Sum System (PLUS). The PLUS database contained participant data and was used to issue benefit payments to participants and beneficiaries. The Corporation's PAY 3000 system, which was an extract of the PLUS database, was used by the Corporation to address participant inquiries. As early as 1993, the OIG reported as a material weakness that "...controls related to the input of non-financial participant data to PLUS ... are inadequate to ensure the veracity of the data maintained therein." We recommended that "controls be implemented ... to verify the accuracy of non-financial data entered in and maintained on PLUS." Further, we recommended that "steps be taken by the Insurance Operations Department to facilitate the timeliness of the data gathering and verification process." See OIG Report 93-6/23069-1 (September 29, 1993), *Financial Audit: PBGC's Present Value of Future Benefits With Respect to Terminated Plans*, at 3 - 5 of the Report on Internal Controls.

In addition, PBGC states in its comments that "...the difference in the data reported by PRISM and the prior manual system for tracking IDL production does not support a conclusion that the IDL issuance numbers reported under the manual system are incorrect" (see TAB 1, at 4). As stated in our *Efficiency and Effectiveness* report, the controls to ensure the accuracy of the manual count of IDLs issued were weak (see OIG Report 99-2/23128-1, at 10). In its response to that report, PBGC stated that it now uses PRISM to account for IDLs, and no longer uses the manual process. We note that PBGC made no representation regarding the reliability of their controls to ensure the accuracy of the manually counted IDLs. We are glad that PBGC has taken a positive step to abandon the manual count procedures for IDLs. However, the PRISM process for counting IDLs remains unaudited and data reliability remains in question.

B. IPS

In its comments, PBGC stated that:

As we reported last year, all of the 'missing' records reported in the OIG's samples involved IDLs issued or plans trustee before IPS became operational. These instances represent record keeping matters related to older plans rather than instances where PBGC failed to issue an IDL. Of the 59 IDL records cited as missing in last year's OIG report, the majority represented IDLs for participants who were deceased or the recipients of a one-time lump sum payment.

See TAB 1, at 4-5. We did not discuss these missing records in this follow-up IDL Report.

These comments address a finding in our *Efficiency and Effectiveness* report, in which we stated that we could not locate IDLs for 59 participants in our sample (see OIG Report 99-2/23128-1, at 8-10). In its response to that report, PBGC represented that certain of these files, involving deceased participants and participants that had received a lump sum benefit, had been archived and would be retrieved from the Federal Records Center. Subsequently, PBGC informed us that these files had been destroyed. Therefore, the Corporation cannot support its claim that all IDLs have been issued. We consider this issue to be unresolved.

C. IDL Tracking

At the completion of each fiscal year, PBGC announces the specific number of IDLs it has issued during that year. In its comments to this Report, PBGC stated that it does not use that reported number of issued IDLs to compute its performance measure of the average time it has taken to issue the IDLs during the period. At no time during our review did PBGC state that the two IDL counts were different.

PBGC states now that the IDL count it uses to calculate the average length of time to issue IDLs is greater than the reported fiscal year IDL issuance count. PBGC's intent is to calculate how long it takes to issue the correct IDL. Therefore, reissued IDLs are excluded from the reported fiscal year count, but are included in the computation of the average length of time. Based upon PBGC's representation, we would expect the IDL count used to calculate the performance measure to be higher than the number of IDLs reported as issued by the Corporation.

As we stated in this Report, in FY 1998 the Corporation reported that it had issued 61,104 IDLs. However, PBGC used only 50,658 IDLs to compute its performance measure. Thus, PBGC used 10,446 fewer IDLs than it reported as issued in calculating the performance measure. Conversely, for FY 1999, PBGC reported that it issued 67,657 IDLs while we found the number that it used to compute the performance measure was 72,045. This would appear to support PBGC's statements in its response. It would also indicate that PBGC reissued 4,388 corrected IDLs during FY 1999.⁶

⁶ As we noted in our Report, the data contained in PRISM supports that 58,638 IDLs were issued for FY 1998 and 66,316 IDLs for FY 1999.

3. Statutory Changes

In its comments, PBGC states that under current law, it cannot consistently process cases and issue IDLs in less than three years (see TAB 1, at 2 and 4). However, PBGC did not provide specific information regarding the statutory provisions it believes are an impediment to a more efficient and faster benefit determination process, the changes it believes are necessary, or the status of its current efforts in recommending those statutory changes to Congress.

The full text of PBGC's comments are attached to this report at TAB 1.

If you have any questions concerning this letter report, please contact me at (202) 326-4030.



Wayne Robert Poll
Inspector General



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

DATE: February 25, 2000

TO: Wayne Robert Poll
Inspector General

FROM: Joseph H. Grant
Deputy Executive Director
and Chief Operating Officer

SUBJECT: Draft Evaluation Report: Update On The Length Of Time It Has Taken PBGC To Issue Initial Determination Letters (2000-4/23140-1)

We appreciate the opportunity to provide comments on the February 2, 2000 draft report of the Office of the Inspector General (OIG) to Senators Charles E. Grassley and Christopher Bond entitled "Update On The Length Of Time It Takes PBGC To Issue Initial Determination Letters" (IDLs). This report updates two reports issued by the Office of the Inspector General on March 2, 1999.

I. Overview

In our comments on your reports last year we observed that your analysis, based on those 60 plans trusted from 1974 - 1991, is "... not reflective of the way we process cases today." We pointed out that "As a result of changes we have implemented since 1993, we have greatly improved our operations and shortened the time it takes to issue IDLs".

We are pleased that your draft report confirms some of the very real progress we have made since 1993. However, we feel it still does not fully reflect the improvements we have made and the current status of the Pension Benefit Guaranty Corporation's (PBGC) operations. PBGC data confirms significant reductions in the time it takes the PBGC to issue IDLs.

In 1993, PBGC faced an enormous backlog of work.

- The agency was issuing 20,000 to 25,000 IDLs per year.
- The agency had an inventory of 300,000 unissued IDLs which represented at least a 12 year inventory of work.
- 70,000 of these participants, in over 600 plans, had already been waiting at least 7 years, some as long as 20 years.

This backlog has been significantly reduced.

- Today the agency issues over 60,000 IDLs annually.
- The inventory of unissued IDLs is under 190,000, less than three years of work at current production levels.
- The average age of this inventory is less than 2 ½ years, and in only one plan have participants had to wait as long as 7 years.
- By the end of this fiscal year we expect to issue all IDLs for plans trusteeed more than 5 years earlier.

We are committed to further reducing our IDL issuance times. Last year we accelerated our plan to reduce the time it takes to issue an IDL. We currently plan to issue IDLs within 3 to 4 years of plan trusteeship by FY 2001. Under the limits imposed by current law, PBGC cannot consistently complete case processing and IDL issuance in less than 3 years.

While accelerating the issuance of IDLs is critical, our highest priority continues to be the payment of uninterrupted benefits to participants in the plans we trustee. No participants, eligible to retire, ever have to wait for an IDL in order to start getting benefits. Prior to getting an IDL they receive benefits on an estimated basis. The amount of the benefit is finalized after they receive an IDL and have an opportunity to appeal the Corporation's decision.

II. Progress In Addressing PBGC's Backlog In Case Processing and IDL Issuance

A. Status in 1993

In 1993, the PBGC faced an enormous backlog of work. About 300,000 participants were waiting for their benefit determinations. The agency was only making 20,000 to 25,000 benefit determinations per year, so there was at least a 12 year inventory. Even worse, PBGC was receiving well over 25,000 new participants requiring IDLs each year, so the backlog was growing, with no end in sight. Some people had been waiting for a benefit determination for almost 20 years.

At that time, PBGC recognized that major changes were necessary in order to address the case processing and customer service challenges that faced the agency. In making these changes we consulted with outside experts including the General Accounting Office and the Office of the Inspector General. PBGC completely reorganized its Insurance Operations Department in FY 1995. This reorganization incorporated changes in all of the areas recommended in the March 30, 1995 OIG report on the PBGC benefit determination process.

B. Re-engineering

In order to successfully reduce the backlog, two other actions had to occur. First, PBGC needed to significantly increase the number of IDLs issued each year so that the inventory of unissued IDL's would be reduced over time. Second, PBGC needed to ensure that it focussed on issuing the oldest IDLs in its inventory each year so that no one would ever again have to wait 20 years for a benefit determination.

Through improved procedures, streamlined policies, new automated data systems and better resource allocation, PBGC has met both these objectives. We have tripled the number of benefit determinations we make, and have issued 60,000 to 70,000 IDLs each year since 1995 (SEE CHART 1). At this heightened level of production, the number of determinations made has exceeded the number of new participant claims each year since 1994. It is worth noting that this overall inventory reduction was accomplished at a time when the number of participants in newly trusteeed plans averaged about 45,000 annually (SEE CHART 2).

PBGC also initiated a series of special projects to give top priority to the issuance of all IDL's in the oldest plans in our case processing inventory. In FYs 1995 and 1996, we targeted the pre-1986 plans; in FYs 1997 and 1998 pre-1991 plans; in FY 1999 pre-1994 plans; and in FY 2000 we are targeting the pre-1996 plans. As a result of these special projects we have dramatically reduced the age of the oldest IDLs in our inventory (SEE CHART 3). Indeed, as of October 1, 1999, the average age of the inventory of IDLs to be issued was 2.3 years.

This combination of increased production and better case inventory management has reduced the overall size and age of our unissued IDL inventory. The number of participants awaiting a benefit determination today is less than 190,000. At today's higher production levels, this represents about a three year inventory (as compared to the 12 year inventory in 1993). Further, the number of IDLs remaining to be issued in plans trusteeed more than three years ago has declined from about 175,000 in 1994 (about 60% of the 1993 total inventory) to about 40,000 today (about 20% of the present total inventory) (SEE CHART 4).

C. OIG Evaluations of IDL Issuance

Because the OIG's draft update report focuses only on the average age of the IDLs issued in the past, it still does not reflect the full extent of the progress PBGC has made. The OIG states, on page 4 of the draft that ". . . PBGC still requires 7 or more years to issue a significant number of the IDLs." To put this in perspective, PBGC expects to issue about 60,000 IDLs this year. We also expect to complete IDL issuance for all plans trusteeed more than 5 years ago. Of the 60,000 IDLs we expect to issue, only 3,000 are for participants whose plan was trusteeed more than 7 years ago. In other words, only 5 percent of the FY 2000 IDLs will have taken more than 7 years to issue. About half of these IDLs are for participants covered in one plan that has been the subject of extended litigation between PBGC and the former plan sponsor. Most of the remaining IDLs are for formerly missing participants.

We are pleased that the OIG draft report reflects the improvements PBGC has made in promptly issuing IDLs after the actuarial valuation has been completed. The OIG found that PBGC raised the percentage of IDLs issued within one year of the valuation from 39% to 86%. This is entirely consistent with last year's management response to the OIG's concerns raised in the March 2, 1999 OIG report 99-2/23128-1. We do not expect that this percentage will increase markedly in the future because there are always some IDLs that are delayed. For example: (1) "missing participants" whose addresses we could not previously find; (2) "woodwork participants" whose employment history was completely absent from the plan sponsor's records; and (3) participants who appealed their first IDL and who received a revised IDL following their appeal.

We are also pleased that the OIG draft report confirms the accuracy of our previous reports on the average age of the IDL's we issued in FY 1998 and FY 1999. While the draft OIG report characterizes data showing that it took 5.39 years in FY 1998 and 5.7 years in FY 1999 as "substantially correct", the OIG actually found that it took us less time than we reported, 5.36 years in FY 1998 and 5.62 years in FY 1999. This is a significant decrease from the 7 to 8 year average suggested by Appendix I of OIG report 99-3/23128-2 issued last year. We expect that the average age of IDLs issued each year will continue to decline. Prior to this year, the Corporation's goal was to issue IDLs within 3 to 5 years of plan trusteeship by FY 2002. We now believe we can reach that goal this year -- two years ahead of schedule.

We have also revised our FY 2001 goal. We now plan to issue IDLs in 3 to 4 years by then. However, it should be noted that under the requirements of current law, PBGC cannot consistently complete plan processing and IDL issuance in less than three years. PBGC has identified several changes to Title IV of the Employee Retirement Income Security Act that would enable IDLs to be issued more quickly.

III. Data Reliability

The OIG draft report continues to raise data reliability concerns about the Participant Records Information Systems Management (PRISM) and the Imaging Processing System (IPS), two of the automated data systems that have become operational in recent years.

A. PRISM

Although there are differences in the numbers produced by PRISM and previous PBGC management information systems, these differences do not raise legitimate data reliability concerns. As we have previously reported, PRISM did not become operational until the fall of 1998. Prior to that time, PBGC had no automated data base to track non-financial participant information. We relied on a manual system for tracking the number of IDL's issued. While PBGC is making the PRISM database as complete as it reasonably can, we can never fully capture data that was not recorded prior to PRISM becoming operational. We agree with the OIG that PRISM does not substantiate the IDL issuances in the years prior to its becoming operational. However, the difference in the data reported by PRISM and the prior manual system for tracking IDL production does not support a conclusion that the IDL issuance numbers reported under the manual system are incorrect.

B. IPS

With respect to IPS, we are pleased that the OIG report documents significant improvements in the agency's participant records system. As we have previously stated, IPS did not become operational until FY 1997. Before FY 1997, PBGC relied on a manual, paper-based filing system. Here again, PBGC has made an extensive effort to capture prior participant records for our new automated participant records system.

As we reported last year, all of the "missing" records reported in the OIG's samples involved IDLs issued or plans trustee'd before IPS became operational. These instances represent

record keeping matters related to older plans rather than instances where PBGC failed to issue an IDL. In addition, PBGC has not incurred the expense of imaging the complete files for participants who are not entitled to future benefits. Of the 59 IDL records cited as missing in last year's OIG report, the majority represented IDLs for participants who were deceased or the recipients of a one-time lump sum payment. These participants have no current or future benefit entitlement. The cost of imaging files is significant. We cannot justify spending substantial agency resources on imaging historic participant data for which there is no reasonable business purpose.

We are, however, committed to capturing all current and future participant records in IPS. Therefore, we were encouraged that the OIG was able to locate over 95% of the IDLs issued in FY 98. This represents a substantial improvement over the 66% rate reported by the OIG for plans trusteeed in FY 1976-1991 and the 74% for IDLs issued in FY 1994 through 1997. We will continue our program of sampling and testing participant data to ensure that it is complete and that IDLs are issued to all participants.

C. IDL Tracking

Finally, the OIG reports a new data reliability concern "that the number of IDLs reported as issued by PBGC, and the number it used to compute the average length of time to issue IDLs did not match." These two numbers do not match because we are reporting on two different performance standards.

First, we are measuring the number of participants who receive an IDL. Second, we are measuring the time it takes to issue an IDL. Some participants will receive more than one IDL for a variety of reasons (e.g., when the agency issues a revised IDL after a participant provides additional information that supports a higher benefit, or after an appeal).

We do not include these additional IDLs in our report of the number of IDLs issued each year. To do so would double count benefit determinations for these participants. However, we do include these additional IDLs in our report on the average time it takes us to issue participants final benefit determinations. For this report we use only the last IDL issued. To leave these subsequent benefit determinations out would understate the average time it takes us to provide these participants with an accurate final benefit determination. We are consistent in the way we use PRISM data for these two distinct purposes.

IV. Conclusion

PBGC continues to agree with the OIG that historic processing times were too long and that the process lacked sufficient internal controls and management information. PBGC management, as demonstrated by the initiatives described above and in the attachments, is committed to issuing IDLs as quickly as possible and to providing high quality service to participants. Since 1993, we have dramatically reduced the time it takes us to fully process cases and issue IDLs to plan participants. PBGC management is also committed to ensuring the reliability of all participant data. Since 1993, we have developed several modern automated data systems including PRISM and IPS. These systems have significantly improved the completeness

and the availability of the participant data that PBGC needs to carry out its statutory responsibilities.

While we have made significant progress, further improvements must be made. We will continue to systematically identify and implement improvements to our operations.

Chart 1

PBGC Benefit Determinations Issued
FY 1988 - FY 1999

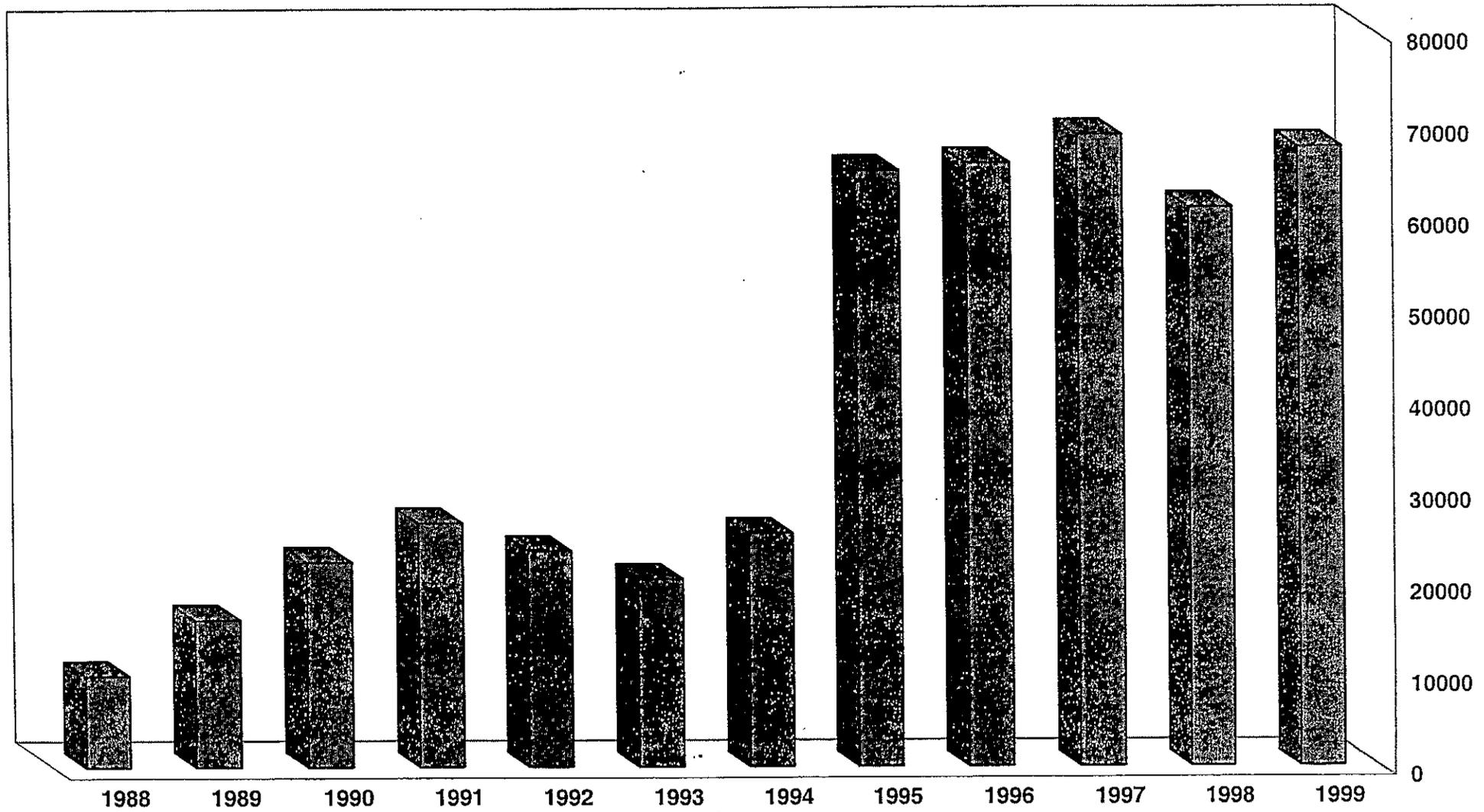


Chart 2

New Participants in Trusteed Plans
Fiscal Year 1988 - 1999

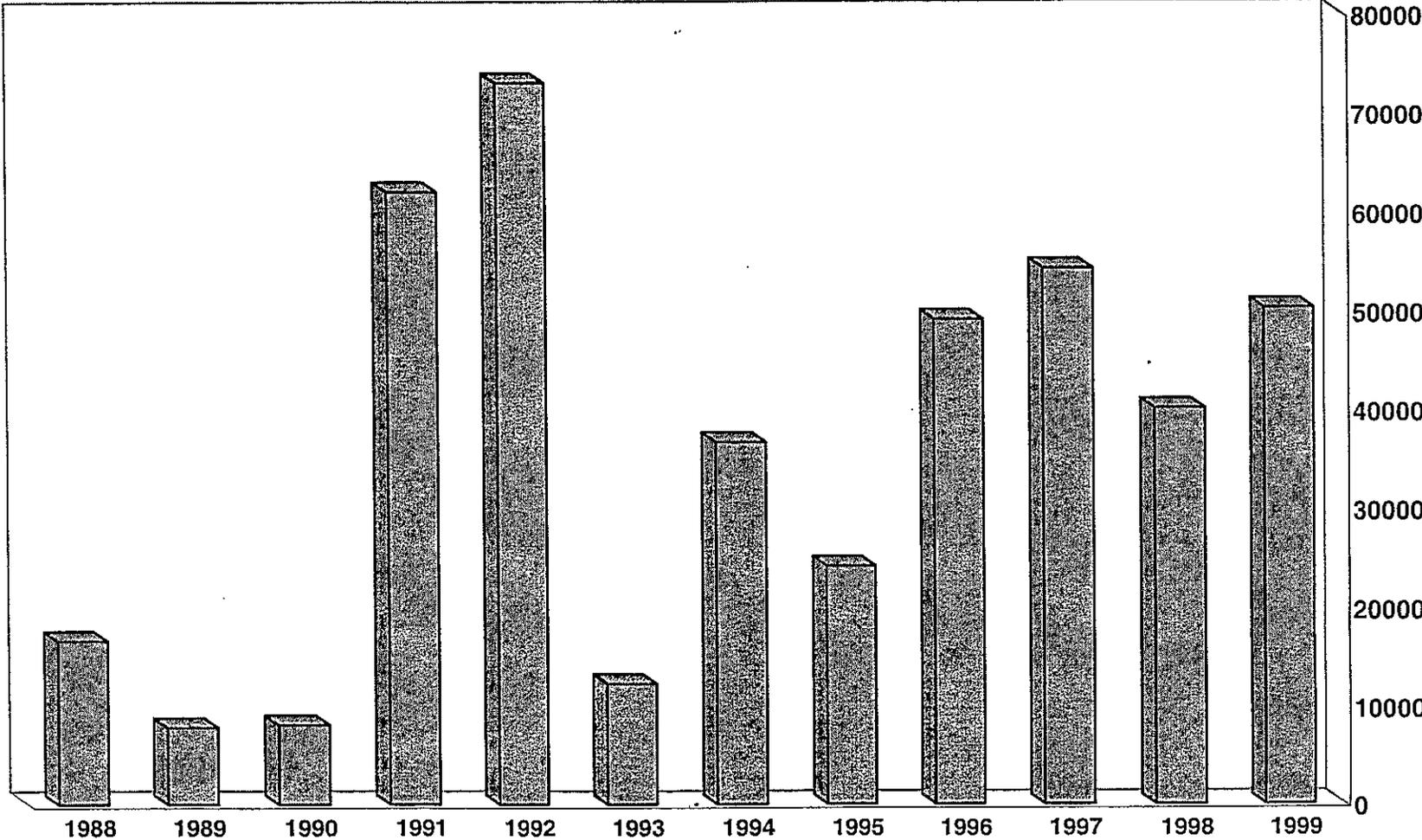
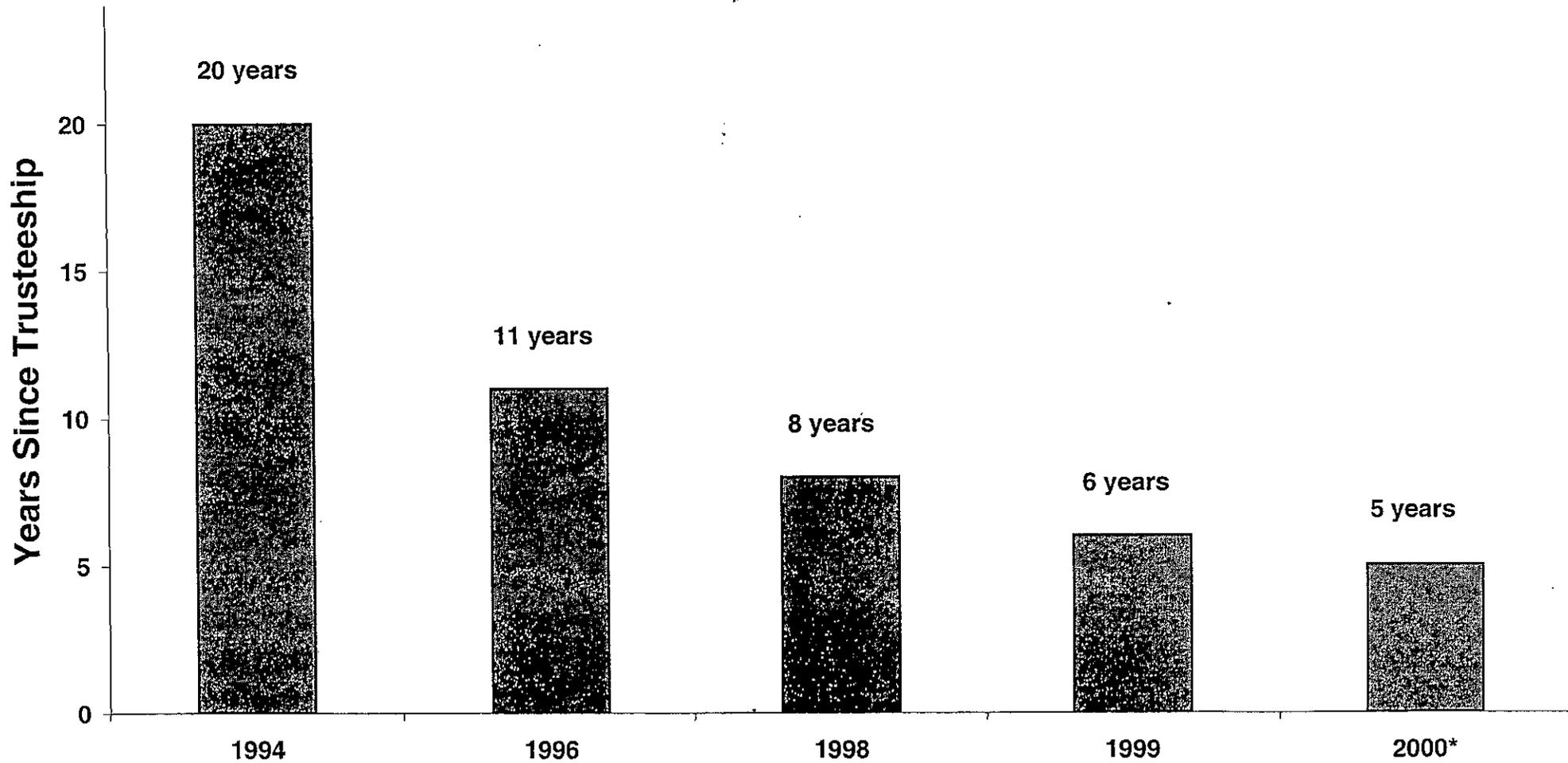


Chart 3

Age of the Oldest Plan
With Incomplete Benefit Determinations
[End of Fiscal Year]



*Projected as of September 30, 1999

Chart 4

Initial Determination Letters
Pending Completion

