



Pension Benefit Guaranty Corporation
Office of Inspector General
Evaluation Report

**Pension Plan Participants
Impacted By Delays In Initial
Determination Letter Issuance**

March 2, 1999

March 2, 1999

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

This letter responds to your request that we conduct a multi-year review of the Pension Benefit Guaranty Corporation's (PBGC) process for issuing initial determination letters (IDLs) to participants in pension plans that PBGC has terminated and trusteed. Your requested review had three parts. This report responds to the third request -- that we review "the effect of delays upon individuals awaiting an IDL."

RESULTS IN BRIEF

Information from participants, who had participated in PBGC-sponsored meetings and surveys, and submitted correspondence to PBGC, indicate that they are affected in many different ways by PBGC's delay in issuing IDLs. Some participants stated that delayed IDLs result in:

- their inability to plan for the financial future;
- estimated benefit payments continuing for a long time, and if PBGC determines that the estimate was too high, participants are told that they owe PBGC significant amounts of money; and
- a low confidence level in PBGC because
 - PBGC's estimated benefit payments reduced their monthly payments with no explanation or calculation formula, and no ability to appeal;
 - PBGC stated that they would issue IDLs within a particular timeframe, and it hasn't done so; and
 - PBGC's Customer Service Standards don't address the issuance of timely IDLs.

PBGC has initiated several actions to shorten the length of time between a pension plan's termination and trusteeship and the issuance of IDLs. They have also taken steps to improve their communications with participants.

BACKGROUND

The Pension Benefit Guaranty Corporation (PBGC) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. PBGC is a government corporation that protects the pensions of more than 42 million Americans in approximately 43,000 single-employer and 2,000 multiemployer defined benefit plans through an insurance program. ERISA established a statutory scheme so that if an insured pension plan had insufficient assets to provide benefits to participants, PBGC could terminate and become trustee of the plan, and then pay pension benefits when they were due. At September 30, 1998, PBGC was trustee, or in the process of becoming trustee, of 2,665 terminated pension plans.

One of PBGC's responsibilities under ERISA is to ensure the uninterrupted payment of pension benefits to participants in plans that have terminated. This means that PBGC continues paying current retirees and begins paying those plan participants who become eligible after PBGC terminates the plan. The participants receive estimated benefit amounts until PBGC completes certain tasks with respect to each terminated plan. These tasks include determining the date of trusteeship and obtaining a trusteeship agreement, confirming key participant data, identifying plan assets, and valuing those assets and any other recoveries from the plan's sponsors. PBGC then 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 initial determination letter (IDL) to notify participants of an official decision regarding entitlement to, amount, and other conditions of a benefit.

ERISA established certain levels of benefits -- guaranteed benefits -- for participants in terminated plans. Often this amount is less than the amount participants would have received if the plan had been fully funded or had not terminated. As a result, it is not unusual for participants to have their benefits reduced twice, once when PBGC first trustees the plan and reduces the benefit to conform to statutory guarantees (the estimated benefit), and again, when PBGC issues the IDL (the final benefit).

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this review was to determine the effects on participants due to a delay in the issuance of IDLs. The impact of delayed IDLs on participants is not subject to objective measurement nor traditional audit techniques. We considered surveying a representative sample of participants and beneficiaries, but determined that this would be too costly. Therefore, we looked to PBGC information sources -- for example, data collection from participants or PBGC's responses to participants' inquiries -- where there might be data addressing whether delayed IDLs affected individuals. We identified three (3) such information sources, which we describe below. We evaluated the following:

- videotapes of focus groups conducted by PBGC between 1994 and 1998 composed of participants in terminated plans that PBGC trustees;
- controlled correspondence received by the agency from April 3, 1996 through April 2, 1998; and
- responses to PBGC Customer Service Surveys from 1995 through 1997.

We also reviewed interviews with senior PBGC program managers that were conducted during the audit of the effectiveness and efficiency of PBGC's benefit determination process (see OIG Report 99-2/23128-1).

We did not verify the accuracy of statements, benefit amounts or claims represented by participants in the information sources. Our analysis and the examples cited are directly from the information sources only. These information sources are not statistically valid samples. Percentages in this report relate to the sample only and cannot be extrapolated to the universe of participants in terminated plans trusted by PBGC.

Focus Groups

PBGC conducted a series of focus groups with retirees and deferred vesteds between 1994 and 1998 to obtain feedback regarding some specific customer services issues, such as timeliness of responses to telephone and mail inquiries, and suggestions for improved service. These focus groups were conducted in various locations (e.g., Pueblo, Pittsburgh, Miami) and were composed of participants from a variety of pension plans (e.g., plans in the steel, manufacturing, retail, airlines industries). These sessions were videotaped and lasted approximately two (2) hours.

We viewed eight (8) videotapes -- one each from Washington, DC; Miami, Florida; Wilmington, Delaware; and Pueblo, Colorado; and two each from Pittsburgh, Pennsylvania and Sarasota, Florida -- to determine whether there were any discussions regarding the impact of a delayed IDL. We also asked PBGC what actions it took in response to information received from the focus groups (see page 4).

Controlled Correspondence

Controlled correspondence is sensitive correspondence¹ received by PBGC. Upon receipt, sensitive correspondence is reviewed to determine who will respond, assigned a control number, and entered into a master log. PBGC's policy is to respond to sensitive correspondence within ten working days of receipt at PBGC. This correspondence is maintained in PBGC Executive Office files.

We reviewed controlled correspondence PBGC received from April 2, 1996 through April 3, 1998. The review consisted of 1,546 pieces of correspondence, many of which had multiple documents attached. We determined that 353 (23%) letters had issues related to IDLs that were initiated by 278 different participants.² Our review was limited to the information contained in the controlled correspondence. One hundred-five (105) participants included their IDL in their correspondence. Our analysis of the length of time it took PBGC to issue an IDL -- measured from the date of plan termination to the date on the IDL -- was based on this population³ (see page 5).

¹ Sensitive correspondence is defined as correspondence originating or signed by the Office of the President or Vice President, Members of Congress, various Federal and State officials, and National Labor Union Officers. In addition, all complaint letters and communications addressed to the Executive Director, and any additional correspondence specifically designated by the Executive Director or Deputy Executive Directors are considered sensitive correspondence.

² Seventy-five letters, or 21%, were repeat correspondence within the 2 year period, sent to multiple congresspersons, the Department of Labor, and the White House. In addition, twenty-five letters, or 7%, were "form" letters from participants in the same plan.

³ The OIG report that responds to the second question you asked us to review -- the length of time it takes PBGC to issue IDLs -- uses the Date of Trusteeship (DOTR) to the date the IDL was issued to measure the time (see OIG Report 99-3/23128-2). PBGC also uses the DOTR when it computes and reports on the length of time it takes to issue and IDL. The date the plan terminates may be earlier, and sometimes significantly so, than the DOTR. We did not use DOTR in this report, however, because that information was not available in the controlled correspondence.

Customer Service Surveys

In response to Executive Order 12862, *Setting Customer Service Standards*, each year since 1995, PBGC surveys participants and beneficiaries from pension plans that it terminated and trustee. Those surveyed are randomly selected from those who have had some contact with PBGC during a particular time period. The surveys consist of ten (10) to twelve (12) questions about the quality and timeliness of service the participant received from PBGC. Those surveyed include current retirees (or their beneficiaries) and deferred vesteds (those who will receive benefits in the future) whose plans are administered in Washington DC or at one of PBGC's Field Benefit Administrators' (FBAs) offices operated by contractors. Approximately 4,000 surveys are sent each year. Upon receipt of the survey responses, PBGC analyzed them and prepared reports to management.

We reviewed the surveys to determine whether there were any questions that would illicit a response regarding the impact of a delayed IDL. We also reviewed some of the narrative responses and PBGC's report analyses (see page 7).

EFFECT OF DELAYED INITIAL DETERMINATION LETTERS ON PARTICIPANTS

PBGC recognizes that it needs to decrease the time between when the plan is terminated and trustee and when the IDL is issued. Senior PBGC management officials stated that the impact of this delay is mitigated by several factors:

- (1) until PBGC completes the plan valuation and calculates the final benefit, participants who retire receive estimated payments and deferred vesteds can receive an estimated calculation;⁴
- (2) if an overpayment occurs because the estimated payment is greater than the final benefit amount, PBGC's policy is to: (a) recoup the overpayment from on-going benefits at 10% of the monthly benefit until the overage is paid, and (b) if the participant dies before the IDL is issued, not seek recoupment from the estate; and
- (3) if an underpayment occurs because the estimated payment is less than the final benefit amount, the participant, or the estate of a deceased participant, is paid the underpaid amount in a lump sum with interest.

One senior PBGC management official stated that a delayed IDL has very little impact upon participants because the participants are receiving their monthly checks. PBGC's focus appears to be the immediate financial impact upon participants of PBGC's trusteeing of the pension plan.

Some participants and beneficiaries stated that the delayed IDLs greatly impacted them. Notwithstanding PBGC's immediate payment of their monthly benefit, they reported other economic harms such as inability to plan their financial future and the requirement to repay overpaid benefit amounts. The participants noted that the estimated benefit had been incorrectly

⁴ There is no formal policy nor practice to provide estimated benefit calculations to deferred vested participants. PBGC has been developing an "actuarial toolkit" (see Report at 9) to be able to provide such an estimate but we do not have evidence that it has been implemented.

computed by PBGC in the first instance, then PBGC's delay in issuing the IDL compounded the overpayment. They also reported impacts other than financial, such as emotional. These participants' and beneficiaries' statements were expressed verbally in focus groups and in writing through controlled correspondence and survey responses.

Focus Group Data

In the focus groups, both retirees and deferred vesteds who addressed the issue of delayed IDLs stated that this was their primary complaint about PBGC's customer service.⁵ For example, the Miami focus group, conducted in 1995, was composed of participants in various airline industry plans who are retired and receiving benefits from PBGC. When asked the "one thing they most wanted PBGC to know," 4 (four) of the 12 (twelve) in this group stated their dissatisfaction with not having a final benefit determination and an explanation of the benefit reductions. When discussing the new Customer Service Standards, some of the focus group members gave PBGC high marks for getting the monthly checks out on time. The same four group members said they would give PBGC a "grade of D" even if PBGC could perform most of its new Customer Service Standards because the Standards did not address the timeliness of IDLs. These retirees stated:

- they can't plan their financial future because they don't know how much they will get;
- their benefits have already been reduced at least once when the PBGC began paying the estimated benefits and no explanation was given as to how this estimated amount was calculated;
- they can't appeal the estimated amount;
- they can't understand, nor has it been explained, why it takes so long to calculate their final benefits; and
- PBGC's Customer Service Standards are not complete because they do not address the timely issuance of final benefit determinations.

Another focus group was conducted in Pueblo, Colorado in 1998, with deferred vesteds in a steel industry pension plan. Eight (8) of the eleven (11) participants responded that they "most wanted PBGC" to issue accurate and more timely final benefit calculations. A majority of these focus group participants stated that PBGC had not met its commitment to them to issue IDLs timely. When their pension plan terminated in 1992, PBGC met with participants and stated that IDLs would be issued in two to three (2-3) years. These participants stated that it had now been more than five (5) years; even if steel pension plans are complicated, it shouldn't take this long. They voiced the same concerns and complaints as some in the Miami focus group and added some others.

- They questioned why participants are given only 45 days to appeal PBGC's final benefit determination when it has taken PBGC years to compute it.
- They stated that customer service surveys don't have meaning when PBGC isn't providing the basic customer service of a final benefit determination.

⁵ Not all focus group participants raised a delayed IDL as an issue. For instance, in the focus groups that were composed solely of retirees, many of the participants retired long before PBGC became trustee of their plan and their benefits were not affected by the plan termination. For the others, they had been in pay status for so long most of them did not remember receiving an IDL.

Controlled Correspondence Data

For controlled correspondence from April 1996 to April 1998, we determined that 278 participants raised issues regarding PBGC's delay in issuing IDLs. These letters reported a myriad of different problems. For example, our analysis of this two years' of correspondence showed that:

- PBGC took an average of 9 years 8 months to issue the IDLs;
- The longest time between the date the plan was terminated and IDL issuance was 18 years 4 months;
- 60% had received IDLs;
- 28% were trying to obtain an IDL, for example:
 - participant was promised an IDL in 1991, but as of 1996 still had no IDL;
 - participant requested IDL in 1985 and told he was due a lump sum but had to wait for final valuation of his pension plan to apply. In 1996, eleven (11) years later, and participant was 65, PBGC sent IDL informing him he was nonvested and therefore not due a benefit; and
- 32% had appealed some aspect of their IDLs.

Some of the participants wrote to complain about their benefit amounts relating to the IDL delays. For example, we identified:

- \$529,994 in overpayments to 39 participants
 - the largest overpayment was paid for fourteen (14) years and totaled \$152,525.88;
 - five participants in one plan were issued IDLs almost six years after the plan terminated and were overpaid between \$19,000 to \$28,000 each;
- 22% wanted to stop the reduction in their benefits as they had received the benefit for years and relied on it: reductions occurred both in the estimated and final benefit amounts; and
- Participants were paid underpayments in a lump sum: one participant stated she paid \$6,000 more in taxes by receiving a lump sum for a ten (10) year underpayment than if she had received the correct monthly benefit.

Participants also raised other questions related to delayed IDLs, such as:

- why there is no statute of limitations for recoupment; and
- how PBGC was protecting their pension when they had waited eight to twelve (8-12) years for an IDL and then their benefits were reduced.

Participants reported they were living on fixed incomes. While only 3% said they could not live on their reduced benefit, 13% said the reduction would cause hardship. For example:

- a beneficiary reported that the \$70 monthly reduction in the survivor benefit was her “power bill” money;
- a participant reported that twelve (12) years after the plan terminated and he had been receiving benefits, PBGC reduced his benefit an additional \$197.81 a month, or \$2,373 per year; he pays \$2,250 for supplemental insurance to Medicare for he and his wife and doesn’t know where he will get the money to pay for the insurance now; and
- a 75 year old widow who was in pay status eight (8) years received an IDL which reduced her pension 25% and informed her she owed PBGC \$5,667.70.

Eight percent (8%) of the participants thought delay in issuing IDLs had caused illness. Participants were also afraid of having their benefits cut and recoupment taken out of the reduced benefit.

Participants also noted that errors in determination of the participant’s entitlement to, or amount of, the benefit are compounded by the passage of time.

- Participant received an IDL informing him he was nonvested after PBGC put him into pay status more than twelve (12) years ago.
- Survivor was told she was not entitled to a benefit which was reversed after she produced a letter PBGC had sent her spouse sixteen (16) years ago stating he was receiving a Joint & Survivor annuity. The plan was terminated in 1977 but there was no record of an IDL being sent. The IDL would have stated the form of the benefit and given the participant a right to appeal if he disagreed.
- IDL sent in error stating benefit form was a Joint & Survivor. After participant died, his surviving spouse was sent a corrected IDL stating the participant’s benefit was a straight life, therefore she was not due anything.
- Eighty-five year old spouse tried for five (5) years to find out what benefit she was due from a plan that terminated in October 1986. After she suffered a stroke, her son-in-law wrote a congressional office. PBGC then responded that she was eligible for a lump sum.

We also noted that some industries had more participants than others who wrote to PBGC about delays in issuing IDLs. The steel industries’ pension plans’ participants accounted for 17% of this controlled correspondence. Participants in the airline pension plans accounted for 31% of the correspondence, with 19% from one airline.

Customer Service Surveys

There were no questions on the surveys about PBGC's timeliness in IDL issuance. There was a question about the timeliness of PBGC's customer service, which followed a series of questions concerning PBGC's responses to participants' telephone and letter inquiries. For the 1995 survey, PBGC's analysis of the data showed that for "timeliness" of service:

- 50% of retiree's rated PBGC as "Excellent," as compared to 36% of deferred vesteds; and
- 9% of retiree's rated it "Poor," as compared to 19% of deferred vesteds.

For "timeliness" of service provided by the FBAs and PBGC's Washington DC headquarters:

- 60% rated FBA service as "Excellent," as compared to 34% by Headquarters; and
- 5% rated FBA service as "Poor," as compared to 18% by Headquarters.

As a result of this information and that gathered from the focus groups, PBGC undertook some customer service initiatives (discussed more fully below). The surveys taken in both 1996 and 1997 showed improvement in the "timeliness" ratings assigned by both retirees and deferred vesteds and for the service provided by Headquarters.

- For the 1996 survey, 58% of retirees and 40% of deferred vesteds rated PBGC as "Excellent," and 44% rated Headquarters' "timeliness" as "Excellent."
- For the 1997 survey, 61% of retirees and 50% of deferred vesteds rated PBGC as "Excellent," and 47% rated Headquarters' "timeliness" as "Excellent."

The surveys also provided a space for respondent's to record a specific complaint or additional comments. For the 1997 survey, PBGC reported that 15% of respondents (about 411 of 2,741) rated PBGC's "overall customer service" below average or unacceptable. Of these respondents, one hundred-forty-six (146) provided written comments, which PBGC compiled. Our evaluation of these comments found that fifty-one (51) related to delayed IDL issues, i.e., not having information about eligibility for, and amount, form and timing of pension benefits.⁶

AGENCY ACTIONS TO ADDRESS PARTICIPANT CONCERNS ABOUT DELAYED IDLS

In response to our request, PBGC provided the following information about its actions to respond to delayed IDL concerns raised by participants. After the first focus groups in 1994, PBGC took several actions to improve customer service, including:

- Customer Service Standards were developed and communicated to PBGC staff and customers;
- an annual newsletter to deferred vesteds was started; and
- implementation of an 1-800 telephone number and the Customer Service

⁶ This is a conservative number as we only included those who clearly complained about not receiving information about their benefit entitlement. There were many other complaints that PBGC had failed to respond to an inquiry, but they were not specific as to the nature of the inquiry.

Center were accelerated.

PBGC first sought feedback on the Customer Service Standards (though they had only been in existence since November 1994) in the 1995 customer survey and the Miami focus group in April, 1995. What PBGC learned was that participants were not satisfied with the timeliness of PBGC's service. In particular, the Miami focus group complained about delayed IDLs. PBGC reported that this information focused management's attention on IDL processing and resulted in several actions:

- in a June 1995 Strategic Planning session discussing "where do we want PBGC to be in 5 years," the goals of "processing plans within 3 years" and "benefit estimates within 5% of the final calculation" were discussed. These were subsequently adopted as two of seven performance measures in PBGC's Strategic Plan;
- Customer Service training was required of both Headquarters and FBA staff; and
- development of the "Actuarial Toolkit" (an automated program for more accurately estimating benefit calculations) was planned.

While the customer service surveys did not ask questions about delayed IDLs, respondents wrote in about them. As a result, when the Customer Satisfaction Working Group analyzed the 1997 survey data, they made three (3) recommendations specifically aimed at improving this aspect of customer service. They recommended that PBGC:

- make it a priority to develop a means to provide participants with an "estimated benefit summary" provided as soon as possible after trusteeship of a plan (information about the amount and year of eligibility provided over the telephone with a follow-up form letter);
- change its response to deferred vesteds who inquire about future benefits (common practice is to state only whether he/she is entitled and at what age, but to say estimate cannot be made and he/she should contact PBGC close to retirement age); and
- develop better means to communicate with deferred vesteds about PBGC activities such as what happens when a plan is terminated, why estimated benefits are given and how they are calculated.

Another recommendation was to conduct more focus groups to better gauge customer expectations (particularly deferred vesteds), obtain feedback on revised Customer Service Standards, and assess various communication efforts. Additional focus groups were conducted in 1998. PBGC has also established a REACH (Reach for Excellence and Customer Happiness) team to "define what an ideal communications package that provides information to participants early in the trusteeship process" would look like.

We did not find any evidence that PBGC had reviewed controlled correspondence, as we did, to determine whether there were any consistent issues raised by participants who wrote to PBGC.

CONCLUSION

Our evaluation of whether participants and beneficiaries are impacted by the delay in IDL issuance revealed that there appears to be a gap between PBGC management's perception of the impact and the perception of those who are waiting for their IDLs. Intermittently during our review, we asked PBGC management: What is the affect on plan participants of PBGC's delay in issuing IDLs? Consistently, PBGC management focused on the financial impact, and one manager stated that there was little impact because PBGC was sending monthly benefits to the participants.

From PBGC's own information sources -- focus group videotapes, customer service surveys, and correspondence -- we evaluated information provided by participants and beneficiaries about the impact of delayed IDLs. We found that some participants and beneficiaries are genuinely concerned about and impacted in very specific ways by PBGC's delays in processing pension plans and ultimately issuing IDLs.

We sought information to determine whether PBGC was implementing any customer service strategies to address these concerns. We identified progressive steps that have been taken, or are about to be taken, to address delayed IDL issuance concerns. Corporate initiatives, with a focus on earlier IDL issuance, has begun. It appears, though, that these initiatives will require some implementation time before participants and beneficiaries will directly benefit from shortened periods of time to issue IDLs. The OIG intends to monitor and report on the progress of PBGC actions taken to resolve participant and beneficiary concerns.

AGENCY COMMENTS AND OIG EVALUATION

Although the Report contains no findings or recommendations, a copy of the draft was provided to the agency for comment. We met with several PBGC officials to discuss the Report's findings. Subsequently, we made clarifications in the Report in response to management concerns, as appropriate.

In its official written response, PBGC did not disagree with the Report's conclusion that pension plan participants are, in fact, affected by delays in initial determination letter (IDL) issuance. Rather, PBGC's comments focus on actions and initiatives PBGC has undertaken since 1993 to decrease the amount of time it takes to issue an IDL.

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

This Report is one of four issued by the OIG in response to questions posed by Senator Grassley concerning PBGC's issuance of IDLs:

- *Improvements Are Needed To Achieve Better Efficiency and Effectiveness in PBGC's Benefit Determination Process* (OIG Report 99-2/23128-1);
- *The Length of Time It Has Taken PBGC To Issue Initial Determination Letters* (99-3/ 23128-2);
- *Pension Plan Participants Impacted By Delays In Initial Determination Letter Issuance* (OIG Report 99-1/23128-3); and
- *Audit of PBGC's Response To Certain Questions Concerning Appeals of PBGC Initial Determinations of Pension Benefits* (OIG Report 98-10/23131).

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

Wayne Robert Poll
Inspector General

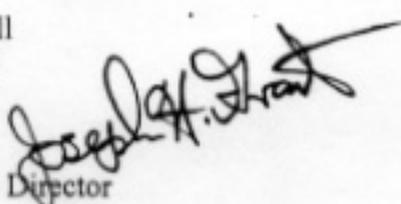


Pension Benefit Guaranty Corporation

1200 K Street, N.W., Washington, D.C. 20005-4026

DATE: JAN 15 1999

TO: Wayne Robert Poll
Inspector General

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

SUBJECT: Draft Letter -- Effect of Delays in Issuing Initial Determination Letters (IDLs)

I write to provide PBGC's comments on the revised January 8, 1999, draft letter to Senator Charles E. Grassley concerning "the effect of delays upon individuals awaiting an IDL." We appreciate the opportunity to provide comments.

Your report provides some anecdotal examples of participants who have been adversely affected by past PBGC delays in issuing IDLs. We recognize that delays in issuing IDLs can adversely affect some participants. It is for this reason that every member of PBGC's management team is, without exception, focused on processing cases as quickly as possible.

We have made faster case processing a major corporate objective in our strategic plan and we have reengineered systems and organization to minimize delay. These actions have begun to relieve the uncertainty that some participants may have about their future benefits. For example, in your report you mention the effect of delays on participants whose estimated payments are too high where the overpayments must be recouped. While recoupment of overpayments affects fewer than 10 percent of our participants and the amounts of most recoupments are a fraction of a monthly benefit, we recognize that delays may make it difficult for some participants to make important retirement decisions. Faster case processing addresses this problem.

Our concern with avoiding unnecessary delays led us, starting with the arrival of the new management team in 1993, to implement major changes in the way PBGC operates. Our goal is to ensure that we process cases as quickly as possible in accordance with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), and to minimize adverse impacts on participants. These changes are now bearing fruit, as shown by newly emerging statistics.

To appreciate the significance of the PBGC's efforts, you must appreciate both the complexity and enormity of the task PBGC faced in 1993. With the agency's focus on a growing deficit during the 1980s and the sudden influx of bankruptcy cases in major industries such as airlines in the early 1990s, we found that the agency was still processing plans that it had taken in over 20 years ago. Indeed, in 1993, facing a backlog of about 300,000 unissued initial determination letters, or "IDLs", we placed an intensive management focus on shortening processing times to minimize any adverse impact on participants.

As a result of our efforts, we have greatly increased the number of IDLs issued each year from about 20,000 in 1993 to more than 60,000 in each year since 1995.

As we reviewed our operations, we identified many challenges. Under the procedures then in effect, the amount of time between the date PBGC took over a plan and the date PBGC finally completed the calculation of benefits and issued IDLs ran into many years. We concluded that a major overhaul of PBGC's operations -- how we set corporate goals, how we process benefits, and how we communicate with our plan participants -- was long overdue. We needed to invent a structure that provided a new combination of faster case processing and improved customer service.

Taking over a plan, gathering documents and data, performing benefit calculations, and issuing IDLs is inherently complex and time consuming. As background, we believe it would be helpful to describe some of the key processing changes we have initiated within the past 6 years and, in an addendum, the complexity of the steps leading to issuance of IDLs.

I. PBGC Improvements Since 1993

Beginning in 1993, PBGC began to focus intensively on shortening our processing times to minimize any adverse impact on participants.

PBGC's processing challenge in this overhaul was to find ways to issue IDLs as quickly as possible within the complex legal and operational requirements of Title IV of ERISA. As you are aware, the most important change was the reorganization of the Insurance Operations Department. The reorganization introduced team case processing, where auditors, actuaries, pension administrators, and attorneys are asked to work as a team to process cases. This decision replaced sequential case processing, and avoided delays caused by handing off work from one employee to another. Team case processing is especially appropriate and advantageous for the type of work we do because it enables tasks to proceed simultaneously on numerous related processing steps. New computer systems were developed along with the implementation of team processing to support the benefit calculation process. For example, our new document imaging

system allows us to instantly access participants' records rather than having to wait for a file to be retrieved from another staff person's desk or a remote file room.

PBGC also bolstered its strategic planning effort. Senior management has developed overall corporate goals and objectives, and monitors work plans to mark progress towards those goals. As you are aware, the centerpiece of this strategy is to achieve the goal by the year 2002 of issuing IDLs within 3 to 5 years after PBGC takes over a plan. While you correctly observe that this is not included in our customer service standards, it is a performance target in our Corporate strategic plan which we feel is the more appropriate management action to focus on this issue. Because of the importance of IDL processing under our strategic plan, PBGC has devoted more resources for this purpose in recent years.

PBGC has been diligent in identifying opportunities to issue IDLs more quickly. For example, we initiated several projects targeting our backlog of unissued IDLs. Also, under a new policy issued in 1998, IDLs are issued early to participants who have been receiving benefits for at least one year where there is little risk that the benefit is incorrect. Similarly, in 1998, we issued a new policy to streamline our procedures for estimating recoveries from employers for plan underfunding, which will enable IDLs to be issued more quickly. We are also working towards improving our ability to provide estimated benefits to all participants who have not yet reached retirement age, which will directly address their retirement planning needs.

As a result of our efforts, we have greatly increased the number of IDLs issued each year. In 1993 and 1994 PBGC issued 20,587 and 25,557 IDLs respectively. We then issued 65,191 IDLs in 1995, 65,978 in 1996, 69,011 in 1997, and 61,104 in 1998. We have completed processing and issued all IDLs for all but one plan trustee before FY 1991. We not only expect to achieve our goal of 3 to 5 year processing by the year 2002, but we are becoming increasingly confident that we will achieve it even sooner.

Additional evidence of our progress is that the total number of unissued IDLs has been reduced from about 300,000 in 1993 to about 200,000 today. The average age of our inventory of unissued IDLs is 3.2 years.

Finally, we have taken numerous steps, some of which are noted in your draft report, to improve our customer service and communicate with our participants. These steps include:

- establishing a new customer service center and giving participants a toll-free 1-800 number;
- building an internet website to provide on-line participant information and help locate missing participants;

- setting new customer service standards (see attachment); and
- sending newsletters to both retired and deferred vested participants.

In addition, the Executive Director is taking a direct role in regularly meeting with thousands of participants in plans recently taken over by PBGC.

Although more difficult to implement, PBGC has also identified various changes to Title IV of ERISA that would enable IDLs to be issued more quickly. We are available to discuss these suggestions.

You indicate in your report that you drew upon three information sources for your examples and analysis: videotapes of participant focus groups held by PBGC, controlled correspondence received by the PBGC from 1995 through 1997, and responses to customer service surveys conducted by PBGC. We appreciate your observation on page 3 of your report that you "did not verify the accuracy of statements, benefit amounts, or claims represented by participants in the information sources" and that "These information sources are not statistically valid samples."

With respect to the focus groups, we would note that we initiated these focus groups in 1994 to better understand the needs and concerns of participants. We have found the ideas raised by participants in these focus groups to be useful as the basis for some of the customer service improvements we have made over the past several years.

With respect to our controlled correspondence, your report notes that, out of the controlled correspondence you reviewed, there were 278 participants who wrote to PBGC about the timing of IDL issuance. While we have not given this correspondence the same quantitative analysis your office did in preparing your report, we do pay careful attention to it. That is why we control, review, and monitor it at a senior management level. We feel it is fair to note that during the time period in which these 278 participants wrote their letters, PBGC issued 127,000 IDLs and the percentage of appeals was only four percent of IDLs issued.

Finally, your report cites customer service problems identified in our customer service surveys. We regularly measure participant satisfaction through customer surveys. As with our focus groups, we use these survey results to give us guidance as to improvements to consider. Our most recent results show that 79 percent of the plan participants rated PBGC service as good to excellent for FY 1997, up from 71 percent in 1995. While this progress is encouraging, we

recognize the need for further improvement, and are working towards our goal of 90 percent customer satisfaction by the year 2002.

II. Conclusion

PBGC management, as demonstrated by the initiatives described above, is committed to issuing estimated and final benefit determinations as quickly as possible and to providing the best possible service to participants. Faster processing is already diminishing the potential for the kind of adverse affects that some participants may have had in the past. We have made significant progress, as the data and survey results show, and we will continue through our strategic planning process to systematically look for opportunities to improve our operations.

PBGC management remains available for further discussions with you on this matter.

Attachments

Addendum: The Benefit Calculation Process
Customer Service Standards

Addendum: The Benefit Calculation Process

For years, PBGC's foremost objective when taking over a troubled pension plan has been to ensure that there is no interruption in benefit payments to plan participants. After we become the plan trustee, retirees continue to be paid and participants who reach retirement age will begin receiving benefits on time. The amount of these payments, however, is only an estimate because, at the time PBGC takes over the plan, we are not able to immediately verify all the plan records and participant data needed to calculate final benefits. Once the PBGC completes the benefit calculation, an "IDL" is issued to inform each participant of the amount of the benefit, and of any adjustments required due to differences between the final benefit and the estimated benefit.

Plans taken over by PBGC invariably involve companies that have been financially troubled for many years. These companies have often filed for bankruptcy or have ceased operations altogether. Because of financial pressures, companies have usually neglected the financial condition of their pension plans, failed to keep the plans amended to conform to changes in the law, and allowed their pension records to deteriorate.

Once PBGC becomes trustee of a plan, it must collect or reconstruct and verify all of the records necessary to calculate benefits. For example, PBGC must find every plan document and plan amendment that impacts on the benefit calculation. In certain cases, Title IV of ERISA requires PBGC to attempt to find every plan document that has been in effect over the past 30 years. Where plan records cannot be found, or where the plan has not been kept up to date, PBGC must reconstruct plan provisions by reviewing the plan's operational history, and apply new pension provisions required by recent changes in the law.

PBGC must also collect or reconstruct and verify all of the data for each of the plan participants. This includes, for example, records on wage history, work history, and personal data such as age and marital status. Where this is not readily available, PBGC must reconstruct the data from secondary sources, such as Social Security.

PBGC must also take custody of the remaining plan assets. In many cases, these assets are difficult to locate. In other cases the assets are tied up in illiquid investments or have been improperly transferred to the failing employer in the form of a loan which is no longer collectible. PBGC must locate assets, unwind poor investments, and account for the plan assets because the amount of plan assets often affects the amount of the participants' benefits.

Finally, in many cases the amount of the benefit depends upon how much PBGC expects to collect from the plan sponsor and related companies. Plan sponsors are liable to PBGC for the plan's funding shortfall. PBGC must perform a financial analysis of the sponsor and related companies and estimate the amount expected to be recovered. Where there are uncertainties, such an estimate might have to be delayed until such uncertainties can be resolved. Additional delays arise when the amount to be recovered depends upon the outcome of bankruptcy or other litigation to collect liabilities owed to PBGC.

Only after the steps described above have been completed does PBGC have sufficient information to complete the calculation of final benefits. This calculation involves interpreting the plan's benefit provisions and adjusting them as required by Title IV of ERISA.

The benefit structure of a defined benefit plans is often quite complex. They usually have numerous benefit formulas to accommodate different employee groups and retirement options, such as different annuity forms, beneficiary designations, and early retirement alternatives. Companies commonly add benefit formulas as they change their business goals or negotiate labor agreements. Additional benefit options might also have to be considered where, for example, a plan has merged with another plan in connection with past corporate mergers or other restructurings. Since pension law generally requires that benefit options cannot be eliminated, PBGC must consider all of these benefit options in order to perform the benefit calculation leading to an IDL.

PBGC also must factor in the requirements and benefit guarantee limits of Title IV of ERISA. For example, in many cases Title IV requires numerous adjustments to a participant's benefits based on the allocation of remaining plan assets among various categories of participants and the impact of estimated recoveries from the employer. Where the plan has not been amended to keep it up to date (as is usually the case with troubled plans), PBGC must also reconstruct or add appropriate plan provisions.

OUR SERVICE PLEDGE

Our customers deserve our best effort as well as our respect and courtesy.

With only one call from you, we will say

- what we can do immediately and what will take longer
- when it will be done, and
- who will handle your request

We will call you if anything changes from what we first told you, give you a status report and explain what will happen next

We will have staff available from 8:00 a.m. - 5:00 p.m. EST, to answer your calls. If you leave a message, we will return your call within one workday.

We will acknowledge your letters within one week of receipt.