



September 26, 2024

MEMORANDUM REPORT

TO: Ann Orr
Acting Director

FROM: Nicholas J. Novak
Inspector General *Nicholas J. Novak*

SUBJECT: Projected Benefit Payments in Selected Special Financial Assistance (SFA) Applications (Report No. EVAL-2024-12)

This memorandum report presents the results of our *Limited Scope Evaluation of Projected Benefit Payments in Selected Special Financial Assistance (SFA) Applications (Project Number EV-23-172)*. The objective of this evaluation was to identify whether SFA procedures were sufficient to ensure increases in projected benefit payments were consistently identified, evaluated against appropriate criteria, and documented. We conducted our work in accordance with the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Quality Standards for Inspection and Evaluation*. We provided a draft copy of this memorandum report to management and their comments have been incorporated in this final report. We appreciate the cooperation you and your staff extended to OIG during this project. We thank you for your receptiveness to our recommendations and our commitment to reducing risk and improving the effectiveness and efficiency of PBGC programs and operations. This report contains public information and will be posted in its entirety on our website and provided to the PBGC Board and Congress in accordance with the Inspector General Act.

Summary

We determined the Corporation's procedures were generally sufficient to ensure increases in projected benefit payments were consistently identified, evaluated against appropriate criteria, and documented. We also determined that the sampled plans'

benefit payment projections in the SFA applications were generally reasonable and without significant errors.

We identified, however, deceased participants in the SFA calculations of the sampled plans. Specifically, we found 570 deceased participants that led to SFA overpayments totaling an estimated \$13.7 million. In November, we reported the impact of deceased participants identified in the Central States SFA application. As a result of the November report, as well as an earlier OIG report (No. 2023-05), the Corporation has significantly improved its SFA procedures, taken steps to ensure deceased participants are removed from SFA calculations, and begun the process of collecting overpayments from approved plans. In April 2024, Central States repaid about \$127 million in SFA to the U.S. Treasury.

Background

The Pension Benefit Guaranty Corporation guarantees the retirement benefits of over 31 million workers, retirees, and beneficiaries through insurance coverage with single employer and multiemployer plan sponsors. Today, nearly 920,000 participants receive benefit payments of over \$6 billion per year from the PBGC. To support its mission, one of the three strategic goals articulated in PBGC's Strategic Plan is to "maintain high standards of stewardship and accountability."

The American Rescue Plan Act and Special Financial Assistance Program

The American Rescue Plan Act of 2021 (ARP) authorized PBGC to provide SFA to eligible multiemployer plans in financial distress. The SFA program, which addressed a long-standing funding shortfall, was designed to ensure eligible multiemployer plans could pay full benefits to all plan participants for 30 years – until 2051. Under the program, PBGC expects to provide about \$80 billion in one-time payments to 198 plans. As of September 2024, it had approved about \$68 billion in SFA to multiemployer plans. Although PBGC funds its multiemployer and single-employer insurance programs with premiums paid by covered plans, the SFA program is funded by taxpayer dollars.

The Importance of Benefit Payments and Census Data

A defined-benefit plan determines its current and future funding needs using a complex mixture of information. However, the most important driver of a plan's liabilities and, consequently, SFA amount, is future benefit payments – how much the plan will have to pay participants to meet its obligations. The starting point for this determination is the plan's census data – a list of the plan's participants.

Multiemployer plan participants represent a spectrum of employees including active workers, retired people, beneficiaries, and terminated vested participants (former employees vested in the pension plan who no longer work for the employer and are not yet receiving a retirement benefit). Census data also includes vital information such as participant age, length of service, and benefit level.

Our engagement focused on plans with higher-than-expected increases in benefit payment projections. We reviewed the plans' benefit payment information and the Corporation's benefit payment review procedures. We then requested census data and related information to better understand the reasons for increasing benefit payments, and the overall reasonableness of benefit payment projections. One potential reason for the increase in benefit payment projections was the inclusion of deceased participants in census data.

Details

PBGC's Procedures were Generally Sufficient for the Four Plans Sampled

We identified deceased participants in the SFA calculations, however, this was not the reason for the increase in benefit payments in the sampled plans. In general, the number of deceased participants was too small to significantly alter benefit payment projections. Instead, we determined the reason for the higher-than-expected increase in benefit payment projections identified in most of sampled plans was because of the retirement assumptions used.¹ These assumptions relate to the timing of retirements for active and terminated vested participants. For three of the sampled plans, we worked with a contractor to replicate the benefit payment projections using assumptions disclosed in the plans' SFA applications, along with census data and other supporting information. We found the benefit payment projections in the SFA applications were reasonable and without material errors. As a result of this, and our analysis of the Corporation's benefit payment review process, we found the Corporation's procedures were generally sufficient.

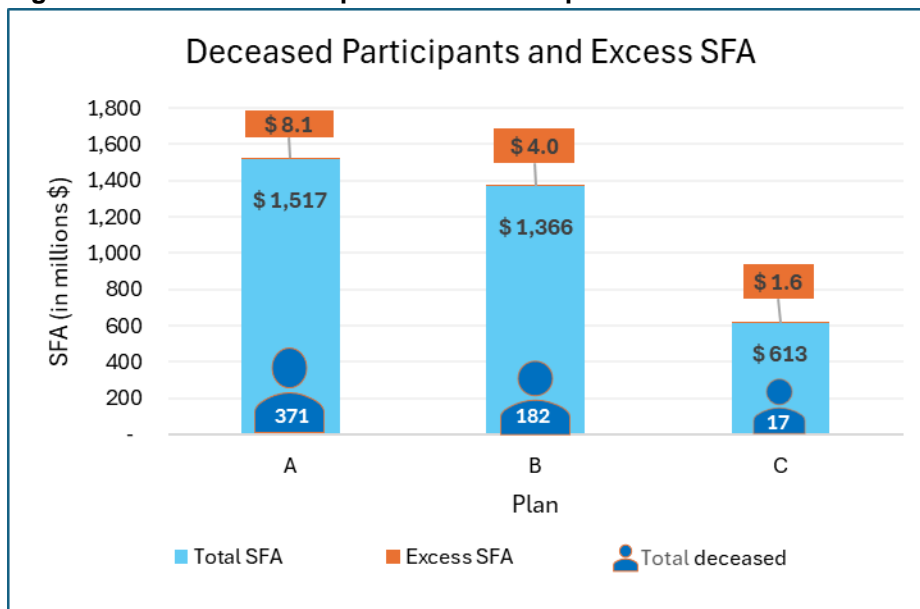
Finding 1: Sampled SFA Plans Contained \$13.7 Million Attributed to Deceased Participants

Standards for Internal Control in the Federal Government require agencies to design control activities to achieve objectives and respond to risks. One of the objectives the Corporation identified when designing key controls for the SFA program was to ensure

¹ "Higher-than-expected" based on our ME risk model built from historical Form 5500s.

eligible plans receive the correct amount of SFA.² ARP states that the correct amount of SFA provided “shall be such amount required for the plan to pay all benefits due” through the plan year ending in 2051. To identify deceased participants, we compared participants’ social security numbers (SSN), last names, and dates of birth (DOB) to these fields in the Social Security Administration’s Full Death Master File (DMF).³ Using this three-factor matching process, we identified 570 deceased participants who died before the census date – valued at an estimated \$13.7 million – in three of the sampled plans.⁴ As detailed in the report [Deceased Participants in the Central States’ Special Financial Assistance Calculation](#), the fourth plan’s death match identified 3,479 deceased participants valued at an estimated \$127 million.

Figure 1: Deceased Participants and SFA Impact



Source: PBGC OIG analysis.

² PBGC Key Control G19.

³ SSA’s Death Master File consists of files of death information SSA compiles from its Master Files of Social Security Number Holders and SSN Applications (Enumeration System) system of records, which contains its records of SSNs assigned to individuals since 1936. These files of death information include, if available, the deceased individual’s SSN, first name, middle name, surname, date of birth, and date of death.

⁴ Plan A provided an estimate of excess SFA, which we reviewed and confirmed. Plans B and C did not provide estimates. Since the number of deceased participants in those plans was relatively small, we estimated the impact on SFA using a present value ratio model that made a few simplifying assumptions.

The Independent Death Audit

The Corporation, through an agreement with SSA, has access to the Full DMF. The Full DMF is the source recommended by the U.S. Government Accountability Office for reducing improper payments to deceased people. SSA shares the Full DMF with agencies that provide federally funded benefits; this reduces the risk of providing federal benefits to a deceased individual's account or to fraudsters using a deceased individual's identity.

However, the Corporation did not initially integrate use of the Full DMF into internal controls for the SFA program; this left the program vulnerable to overpayments. The Corporation approved each SFA application for the four plans discussed in this report in 2022 before it made significant improvements to its SFA procedures. SFA procedures now require an independent death audit for all plans, including a comparison of a plan's census data with the Full DMF. Because of our Management Alert, as of November 2023, the Corporation's death match procedure includes a review across all participant categories (active, retired, terminated vested) to identify the participants who have died, as well as a process for resolving discrepancies between a plan census and the Full DMF, and removing deceased participants from SFA calculations.

During OIG's development and issuance of its Management Alert, PBGC relayed to OIG it did not have a mechanism to collect any potential overpayments from plans. Given the taxpayer dollar impact, OIG reached out to the Department of Justice for a remedy. Ultimately, we worked with the DOJ to achieve repayment of the \$127 million through a settlement agreement with the Central States plan. This excess SFA was recovered in April 2024.

Given the success of the Central States agreement, PBGC has worked with key stakeholders including the Department of Labor and Department of Treasury to develop a path forward for recovery of excess SFA previously paid. After we issued the Central States report, the Corporation began reviewing applications submitted by plans before the new death audit procedures were in place, including previously approved plan applications and the four plans in this report. The Corporation plans to collect any SFA overpayments. The new procedures and the effort to collect overpayments should correct what we viewed as the most significant weakness in the Corporation's review process.

Recommendations and Estimates

The IG Act identifies two main types of monetary recommendations: “Questioned Cost” and “Recommendation That Funds Be Put To Better Use.” Questioned costs include costs identified as unnecessary or unreasonable; recommendations that funds be put to better use is broad in scope, but generally includes any identified savings from implementation of a recommendation.

The inclusion of deceased participants in SFA calculations fit within these definitions. As such, we have decided to identify excess SFA as either questioned costs, or funds to be put to better use. Specifically, payments already made to plans are identified as questioned costs; future payments (to plans under review or plans that have not yet applied) are identified as funds to be put to better use. CIGIE guidance encourages OIG’s to classify monetary recommendations using IG Act terminology, and incorporate the concepts in the body of the report and in the recommendations.

Finally, our recommendations include estimates based on actuarial calculations for multiemployer plans eligible for SFA, not simply the four plans addressed in this report. We did this for several reasons. This is our third report that has identified deceased participants in SFA applications. These reports have resulted in the PBGC’s review of all prior paid plans for recoupment and addition of a death audit prior to application for plans applying for SFA to ensure the removal of deceased participants where identified. Based on this work by PBGC and the OIG, we had results from 31 death audits for use in our estimates – a large body of evidence (about 15% of all the plans expected to apply for SFA, and over half the total SFA program, estimated at \$80 billion). We also had significant information about multiemployer plans beyond the actual census data we sampled: multiemployer plans do not have access to the SSA DMF and therefore do not have access to the same resource as PBGC for identifying deceased participants⁵; and prior to OIG reports and recommendations, the Corporation did not perform death audits in its SFA reviews. Therefore, the likelihood that many applications included deceased participants was high. Our decision to quantify costs aligned with CIGIE guidance and allowed us to put a boundary around the potential recovery for previously paid plans and savings from the revised death audit work PBGC is performing on applying plans. It also requires the Corporation to review the dollar amounts and either agree or disagree with the dollar amounts, a process that increases transparency to both Congress and the public. We note, however, there was uncertainty in the estimate. We used the

⁵ [White Paper: Searching Plan Records for Deceased Participants](#), pp 3 3rd paragraph, pp 8 Conclusion.

midpoint of our estimate for the figure below and for the recommendations. We provided the full range of our estimates in Appendix 4.

Figure 2: Estimated Total Excess SFA*

Cost Category	Estimated SFA
Funds Put to Better Use (SFA Pending)	\$125 million
Questioned Costs (SFA Already Paid)	\$250 million
Total	\$375 million

Source: PBGC OIG analysis.

* The dollar amounts in the figure represent the midpoint of our estimates. For the full range of the estimates and methodology see Appendix IV.

Recommendations

We recommend the Office of Negotiations and Restructuring (ONR):

1. For plans applying for SFA after initiation of the full participant death audit (as agreed to with recommendation 2024-01-01), continue to implement the new death audit procedures prior to approving the applications. Implementing this recommendation could put an estimated \$125 million of taxpayer dollars to better use.

PBGC's Response and OIG's Evaluation

Resolved. PBGC concurred with the recommendation. The Corporation stated that PBGC implemented full participant death audits in November of 2023 and will continue to implement the new death audit procedures prior to approving applications going forward, as has been the practice. The Corporation's goal is to complete the planned action by December 6, 2024.

Closure of the recommendation will occur when the Corporation provides sufficient evidence full participant death audits were performed prior to application approval.

2. For plans paid SFA prior to implementation of the Corporation's full death audit procedure, continue to implement the new death audit procedures, and rectify with the plans the value attributed to deceased participants to include repayment to Treasury. The estimate from this recommendation results in approximately \$250 million in questioned costs, including the \$140 million identified in the sampled plans.

PBGC's Response and OIG's Evaluation

Resolved. PBGC concurred with the recommendation. The Corporation stated that PBGC implemented full census independent death audits for 64 plans paid SFA before its full death audit procedures went into effect in November of 2023. Four plans had no deceased participants. As of September 17, 2024, 12 plans have repaid \$4.93 million to the Treasury. The Corporation will continue to work with the remaining plans to identify the value attributed to deceased participants subject to repayment. ONR has provided OIG with multiple updates on repayment progress and will continue to do so. The Corporation's goal is to complete the planned action by March 31, 2025.

Closure of the recommendation will occur when the Corporation provides evidence the value of SFA attributed to deceased participants, before its full death audit procedures went into effect in November of 2023, has been returned to the Treasury.

cc: John Hanley, Chief of Negotiations and Restructuring
Lisa Carter, Director CCRD
Karen Morris, General Counsel
Latrece Wade, Risk Management Officer
Department of Labor Board staff
Department of Treasury Board staff
Department of Commerce Board staff
House committee staff (Education and Workforce, Ways and Means, HOCR)
Senate committee staff (HELP, Finance, HSGAC)

Appendix I: Objective, Scope, Methodology, and Standards

Objective

The objective of this evaluation was to identify whether SFA procedures were sufficient to: (1) ensure increases in projected benefit payments were consistently identified, (2) evaluated against appropriate criteria, and (3) documented.

Scope

Limited scope evaluation of increases in projected benefit payments in selected SFA applications. We reviewed a targeted sample of four applications approved in 2022.

Methodology

We reviewed federal laws and regulations related to multiemployer pension plans as well as PBGC policies and procedures for the Special Financial Assistance program. We met with PBGC officials to discuss their procedures for handling increases in projected benefit payments. We selected a judgmental sample of four SFA applications with higher-than-expected increases in benefit payment projections for our review. We requested documents including policies, procedures, and SFA application information for the plans in our sample. In addition, we communicated with plan administrators and actuaries via email to obtain census data and other information related to projected benefits and the SFA application. We reviewed plan documents, Corporation templates and reports, and performed reviews of the Corporation's review process related to benefit payment projections.

The evaluation included tests of controls and compliance with laws and regulations to the extent necessary to satisfy the evaluation objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our evaluation.

We identified deceased participants in the plan's census data by comparing the census data to computer-processed data in the SSA's Full DMF. The Full DMF is maintained by SSA to fulfill its mission of providing Social Security benefits to living beneficiaries. The Full DMF is required by law to be shared with other federal benefit agencies, including PBGC. We assessed the reliability of the Full DMF for our audit purposes by: (1) reviewing federal reports on the completeness and accuracy of the data, (2) considering

how other federal agencies used the Full DMF to reduce improper payments, and (3) performing basic analyses to determine the reliability of the data file we used for our work. We note that SSA states the Full DMF is not a comprehensive record of all deaths. Additionally, on rare occasions, living individuals have been incorrectly recorded as deceased. Although the risks of errors are present in the Full DMF, the accessibility of the data to PBGC and its record of success in reducing improper payments supports its use as a method to identify and reduce improper payments. Therefore, we found the Full DMF to be sufficiently reliable for the purposes of this engagement.

Identifying deceased participants by matching with the Full DMF

For this report, we assessed the reliability of census data by comparing the total number of participants in the census file with the number of participants in the plan's Form 5500 filing and/or actuarial reports and making sure the data sets included the participants' SSNs, last names, and DOBs – the three factors that constituted a match when we conducted a death search. We also reviewed and accounted for duplicate SSNs and out-of-range ages and determined these items did not have a material impact on our estimate.

To identify deceased participants, we compared participants' social security numbers (SSN), last names, and dates of birth (DOB) to these fields in the Social Security Administration's Full Death Master File (DMF). This information was used to identify deceased participants, and as a basis for the estimate of overpayments.

Applicable Professional Standards

We conducted the review under the authority of the Inspector General Act of 1978, as amended, and in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform the engagement to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe that the evidence obtained here provided a reasonable basis for our conclusions and observations based on our evaluation objective.

Appendix II: Management Response



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September 17, 2024

To: Nick Novak
Inspector General

From: Ann Orr
Acting Director

Subject: Response to OIG's Draft Report EV-23-172, Limited Scope Evaluation of Projected Benefit Payments in Selected SFA Applications

Digitally signed by ANN
ORR
Date: 2024.09.17
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Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft report, received August 08, 2024, relating to your Limited Scope Evaluation of Projected Benefit Payments in Selected SFA Applications (Project No. EV-23-172). Your office's work on this is sincerely appreciated. PBGC management met with the representatives from the OIG on August 27, 2024, to discuss the finding and recommendations.

All Pension Benefit Guaranty Corporation (PBGC) Special Financial Assistance (SFA) approvals made after November 7, 2023, incorporate the results of an expanded death audit in which we cross-check plans' census data against the Social Security Administration's full file of death information. With respect to prior SFA approvals, PBGC is conducting full-scope death audits on the plans' census data and has begun requesting repayment to the Department of the Treasury (Treasury) of SFA amounts attributable to deceased participants. As you know, PBGC did not make any payments to deceased individuals, and no OIG report has alleged that we have.

Management concurs with the report's finding and recommendations that PBGC continue to perform its current death audit procedures. With respect to Recommendation 1 (regarding plan application approvals that reflect implementation of the full-scope death audit), management acknowledges the OIG's estimate of \$125 million of funds that could be put to better use. It is important to note the \$125 million amount was not paid to any plans that received SFA funds. With respect to Recommendation 2 (regarding plan applications approved prior to implementation of full-scope death audits), we acknowledge the OIG's estimate of \$250 million in questioned costs, including the \$140.1 million identified in sampled plans, of which \$134.5 million has already been returned to Treasury.

In the attachment to this memorandum, you will find our specific responses to each recommendation included in the report, as well as our implemented corrective actions and scheduled completion dates. Our continued action to address these recommendations in a timely manner is an important priority for PBGC.

cc: Lisa Carter, Director, Corporate Controls and Reviews Department
Karen Morris, General Counsel
John Hanley, Chief of Negotiations and Restructuring
Latreece Wade, Risk Management Officer

Our comments on the specific recommendations in the draft report are as follows:

- 1. For plans applying for SFA after initiation of the full participant death audit (as agreed to with recommendation 2024-01-01), continue to implement the new death audit procedures prior to approving the applications. Implementing this recommendation could put an estimated \$125 million of taxpayer dollars to better use.**

PBGC Response: Management concurs with this recommendation.

PBGC implemented full participant death audits in November of 2023 (as agreed to with recommendation 2024-01-01) and will continue to apply the new death audit procedures prior to approving applications going forward, as has been our practice.

Scheduled Completion Date: December 6, 2024

- 2. For plans paid SFA prior to implementation of the Corporation's full death audit procedure, continue to implement the new death audit procedures and rectify with the plans the value attributed to deceased participants to include repayment to Treasury. The estimate from this recommendation results in approximately \$250 million in questioned costs, including the \$140.1 million identified in the sampled plans.**

PBGC Response: Management concurs with this recommendation.

PBGC implemented full census independent death audits (IDA) for 64 plans paid SFA before the Corporation's current full death audit procedures went into effect in November 2023. As a result of this effort, four (4) plans were found to have no deceased participants that required adjustment of the SFA amount. In addition, as of the date of this letter 12 plans previously paid SFA have already repaid \$4.93 million to Treasury. We will continue to work with the remaining plans to identify the value attributed to deceased participants subject to repayment to Treasury.

On August 16, August 30 and September 6, 2024, the Office of Negotiations and Restructuring (ONR) provided the Inspector General (IG) with updates on PBGC's ongoing work requesting repayment to Treasury of certain SFA attributable to deceased participants included in multiemployer pension plans that received SFA prior to the application of full census IDA procedures. ONR will continue to provide the IG with similar updates on this effort.

Scheduled Completion Date: March 31, 2025

Appendix III: Acronyms

Acronym	Meaning
ARP	American Rescue Plan Act
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DMF	Death Master File
DOB	Date of Birth
PBGC	Pension Benefit Guaranty Corporation
SFA	Special Financial Assistance
SSA	Social Security Administration
SSN	Social Security Number

Appendix IV: Monetary Impact*

Figure 3: Estimated Excess SFA

Estimated Excess SFA		
Cost Category	Low-End of Range	High-End of Range
Funds Put to Better Use (SFA Pending)	\$50 million	\$200 million
Questioned Costs (SFA Already Paid)	\$200 million	\$300 million
Total	\$250 million	\$500 million

Source: PBGC OIG analysis and estimates.

* Estimates rounded to the nearest \$50 million (for the low end of the Funds Put to Better Use estimate) or \$100 million (for all remaining estimates).

Funds to Be Put to Better Use (Recommendation 1) Methodology⁶

We used the following methodology for estimating excess SFA for plans under review or yet to apply:

1. We had excess SFA estimates from 12 plans for which the Corporation performed an independent Death Audit, and another two plans that submitted excess SFA estimates to the Office of Inspector General.
2. We used these to calculate the ratio of excess SFA to SFA requested.
3. We calculated the weighted average and standard deviation of these percentages.
4. We determined the total amount of SFA for plans under review and yet to apply based on the Corporation's \$80 billion estimate for the total program minus plans already approved.

⁶ We note the methodology for estimating excess SFA for Recommendation 1 differed from Recommendation 2. The different approach in Recommendation 1, which included excess SFA estimates from 14 plans, took into account the timing of cash flows and PBGC's new processes, which allowed plans to screen for mismatches and discrepancies. Second, the mean and standard deviation were weighted under this approach. This eliminated the effect of extreme outliers, which usually were smaller plans.

5. We estimated the range of total excess SFA for these plans by taking the amount in item 4 and multiplying it by the mean of the percentages in item 3, plus and minus the standard deviation.

6. To the amount in item 5 we added in the plans with the known amount of excess SFA.

Questioned Costs (Recommendation 2) Methodology

1. We identified 66 plans that were approved for SFA payments prior to 11/1/2023. We based our questioned costs estimate on a sample of those plans.

2. We had a sample of death audits from 31 plans, 20 from Corporation reviews of terminated vested participants, and 11 from OIG reviews.

3. The death results from the 31 plans were then used to estimate the percentages of potential deceased for the remaining plans. Specifically, we averaged deceased participants from the actual death audits, then took plus or minus one standard deviation of the average to generate a range.

4. These death estimates were then applied to the plans using a present value ratio model to calculate excess SFA for each.

Appendix V: Staff Acknowledgements

PBGC OIG Contact

John Seger 202-229-3315 or
seger.john@pbgc.gov

Staff Acknowledgements

In addition to the contact above, Charles Yao, Audit Manager; Jensen Chan, Actuary; Richard McCaffery, Program Analyst; Kelly Migliore, Auditor; Ruth Walk, Author; and Yolanda Young, Auditor, made contributions to this report.

Pandemic Response Accountability Committee (PRAC)

We would like to thank the PRAC who assisted our office with the funding, development, and maintenance of a risk model which we utilize in our oversight of the SFA program. The [risk model](#), which utilizes historical Form 5500 data, played an essential role in this evaluation. Besides providing seamless access to historical Form 5500 data for our analysis, the composite risk score from the risk model is crucial in the selection of our sample plans.

Appendix VI: Feedback

Please send your comments, suggestions, and feedback to OIGFeedback@pbgc.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General
Pension Benefit Guaranty Corporation
445 12th Street SW
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If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 326-4030.