Pension Benefit Guaranty Corporation

Office of Inspector General

Evaluation Report

Evaluation of PBGC's Strategic Preparations for a Potential Workload Influx

November 16, 2010

EVAL 2011-1/ PA-09-65

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

November 16, 2010

TO: Joshua Gotbaum
Director
Pension Benefit Guaranty Corporation

FROM: Joseph A. Marchowsky
Assistant Inspector General for Audit

SUBJECT: Evaluation of PBGC's Strategic Preparations for a Potential Workload Influx Report No. 2011-1 /PA-09-65

This report describes the findings identified during our evaluation of PBGC's strategic preparations to handle a potential influx of benefit plans. We initiated this evaluation in response to a request from Senator Herbert Kohl, the Chairman of the U.S. Senate Special Committee on Aging. The Senator noted reports that some large defined benefit plans may be suffering financial distress and his concern with ensuring that PBGC management was taking steps to strategically prepare the Corporation for the possible influx of such plans and their participants.

Our objective was to assess the plans and actions developed and implemented by PBGC management to enable the Corporation to prepare for a potential influx of defined benefit pension plans.

Our report described the need for PBGC to enhance its ability to deal with a potential influx of pension plans. Our recommendations include the development of a strategic plan and associated tactics for ensuring that the Corporation can continue to meet its mission under a range of possible workload scenarios, ensuring that the Corporation's planning efforts reflect the importance of contractors to PBGC and ensuring the workability of plans and making necessary refinements to position PBGC for readiness to address an increased workload.

The Chief Operating Officer's responded to our report, noting PBGC's conclusion that the risk of a large influx of plans is much lower now, than the level anticipated in fiscal year 2009. Further, the response stated management's belief that the resources needed to address the report's recommendations would be better used in other higher priority areas. Accordingly, instead of implementing OIG's recommendations as written, PBGC proposed the creation of a Large Influx Working Group (LIWG) Planning Document as a basis for alternative actions to address the recommendations. For four of the report's five recommendations, it will be necessary for us to review the LIWG Planning Document before we can determine whether PBGC's proposed approach will adequately address the report's findings. Additional detail about the Corporation's approach to the LIWG will allow us to determine whether we can agree with PBGC's proposed management decision. To facilitate resolution of these recommendations and this report, within the next 90 days, please provide a status update of the actions taken and anticipated timeframes for development of the LIWG Planning Document. Please note that OMB Circular No. A-50 requires resolution within a maximum of six months after issuance of a final report.

We would like to take this opportunity to express our appreciation for the cooperation we received while performing this evaluation.

Executive Summary

This report presents the results of our evaluation of the plans and actions developed by Pension Benefit Guaranty Corporation (PBGC) management to prepare for a potential influx of defined benefit pension plans. The recent global economic downturn has increased the risk of distress occurring in PBGC monitored industries. As a result, Congress became concerned about the impact such an event could have on PBGC's operations, workload capacity, and financial condition. The PBGC Office of Inspector General (OIG) received a request from Senator Herbert Kohl, Chairman of the U.S. Senate Special Committee on Aging, to review PBGC's planning efforts to strategically prepare for the potential influx of pension plans. This report presents the results of our review.

While PBGC did not prepare an overall strategy for addressing a potential influx of pension plans, we found that the Corporation did complete numerous planning exercises. Our review focused on the PBGC-wide initiative -- a data call with results submitted to the PBGC Executive Management Committee (EMC) and further refined by the EMC. We also evaluated the actions of the Benefits Administration & Payment Department (BAPD). Unlike other departments, BAPD independently completed several strategic planning exercises in which feedback was sought from other departments within PBGC. These reviews were intended to address only BAPD's ability to meet its own objectives and were not designed to serve as a Corporate-wide readiness assessment. We included other planning documents, such as the Human Capital Plan, in our review as necessary to understand the range of PBGC's planning activities.

Based on the results of our evaluation, we concluded that PBGC should enhance its ability to deal with a potential influx of pension plans by:

- Developing a coordinated approach for addressing PBGC's influx preparedness, to include a strategic plan and associated tactics for ensuring that PBGC can continue to meet its mission under a range of possible workload scenarios;
- Ensuring that plans reflect the importance of contractors to PBGC's strategic approach;
- Analyzing lessons learned from the surge in volume that occurred during Fiscal Year (FY) 2002-2005, which contributed to a number of PBGC's current IT issues, and preparing ways to mitigate the risk of similar future problems; and
- Ensuring the feasibility of plans and making necessary refinements to position PBGC for readiness to address an increased workload, including the development of plans to expand existing contracts and a capacity management plan to ensure systems are ready to support increased network and bandwidth usage.

The Chief Operating Officer responded to our report, noting PBGC's conclusion that the risk of a large influx of plans is much lower now than anticipated in fiscal year 2009. Further, the response stated management's belief that the resources needed to address the report's recommendations would be better used in other higher priority areas. Accordingly, instead of implementing OIG's recommendations as written, PBGC proposed the creation of a Large Influx Working Group (LIWG) Planning Document as a basis for alternative actions to address the recommendations. OIG will be able to determine whether PBGC's response is sufficient for an agreed-to management decision when PBGC completes its LIWG Planning Document and OIG has had an opportunity to review the specific elements of the proposed document.

Developing a coordinated approach for addressing PBGC's preparedness for an influx.

Although PBGC developed a listing of the additional resources that might be required in the event of an influx of additional pension plans, the Corporation did not consider the inter-relationships of the various PBGC business units in its planning and did not develop a coordinated approach for use in the event of a workload surge. Agency management initiated a data call request in which each department independently identified the resources needed, based on two volume scenarios: 150,000 new participants annually and 250,000 new participants[1] annually. The data call was made to all departments at the same time and did not include details of how PBGC planned to address the additional volume. As a result, the data submissions from various PBGC departments were inconsistent and, in some cases, illogical. For example, the estimate of additional laptops computers needed was made independently from estimates of additional employees or contractors to be brought on board.

PBGC's estimates of additional resources did not take into consideration opportunities for changes in tactics in the event of a workload surge. That is, documentation did not demonstrate that PBGC had considered whether alternatives to current work processes might allow the Corporation to expand its capacity in new ways. Instead, PBGC leadership advised that they viewed the planning exercise as relevant only to a particular point in time. Once it was determined that the major auto makers' pension plans were not at imminent risk for termination, PBGC considered that the planning exercise was no longer important. Leadership advised that it was impractical to develop a "playbook" for future events, given that a workload surge could present itself in many differing ways.

Based on our review, we concluded that PBGC's decision to cease its planning activities was short-sighted at best. PBGC should arm itself with a well thought-out strategy for addressing surges in workload volume, as well as a variety of workable tactics that could be used under various situations. While the specific details of any such approach might not be readily determinable before the nature and volume of terminated plans is known, an overall coordinated approach should be developed to ensure that PBGC leadership is prepared to address workload surges under a variety of different scenarios. Further, unless the Corporation completes its readiness exercise and develops necessary tactics, PBGC leadership will not know whether the agency is prepared to meet the challenge of a major influx.

Ensuring that plans reflect the importance of contractors to PBGC's strategic approach

PBGC's planning for a workload surge does not reflect the importance of contractors in achieving the agency mission. The Corporation's informal plan for handling an influx depends heavily upon expanding the contract workforce to handle the increased workload. However, even though nearly two-thirds of the people doing the work of PBGC are contractors, little or no planning has been done to address the strategic role that contractors currently play or the expanded role that contractors might play in the event of a workload surge. PBGC's Human Capital Plan addresses the

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[1] For budgeting purposes, on an annual basis, PBGC generally assumes 100,000 participants will be added to the existing workload.

role of the federal employee in completing the work of the Corporation, but no similar analysis has been developed to recognize the key role of PBGC's contract work force.

The need to include the contractor workforce in PBGC's strategic planning is widely known. GAO reported that contractors play a significant role in PBGC's overall workforce, covering a wide range of services, such as actuarial, information technology, and administrative services. GAO recommended that

> …the Director of PBGC revise its strategic plan and, in drafting the corporation's Human Capital Strategic Plan, reflect the importance of contracting and PBGC's use of contractors, project its vision of future contractor use, and better link staffing and contracting decisions at the corporate level.

Based on the results of our review, we found that management should acknowledge the important role of contractors for handling an influx of plans by specifically incorporating their role and critical functions as part of surge preparedness and strategic planning.

Analyzing lessons learned from previous workload surges and mitigating risks of recurrence.

PBGC did not complete a comprehensive "lessons learned" analysis after a previous workload surge of over 700,000 participants that became PBGC's responsibility during FY 2002-2005. Although the Office of Information Technology (OIT) analyzed the impact of individual plans on IT operations, the analysis did not determine the impact of the previous influx on system infrastructure, design, configuration, storage capacity, and other strategic areas. A significant number of PBGC's current IT infrastructure and configuration weaknesses are a direct result of decisions made during the midst of the previous influx; in many instances, immediate agency mission needs superseded proper IT planning, with results that continue to impede PBGC's IT system effectiveness and security.

Ensuring the feasibility of plans and making refinements as needed to ensure readiness to address a workload surge.

PBGC officials described their informal plans for addressing a potential increase in workload. However, based on our review, PBGC did not ensure feasibility or coordinate the plans with other stakeholders who were necessary to the success of the plans. As a result, PBGC is unaware whether refinements or other changes to the plans are needed to ensure that PBGC is prepared to continue meeting its statutory mission.

Although PBGC plans to rely heavily on contractors in the event of a workload surge, PBGC officials did not vet the feasibility of those plans with the department responsible for issuing the necessary contracts. That is, PBGC did not consult with the Procurement Department to assess the specific actions necessary to enlist contract assistance in processing an influx of pension plans. Among the contracts PBGC would need to modify are those for actuarial services, investment management, and document management. In planning for the influx, PBGC leaders made assumptions that contracts could be easily modified, but did not consult the Procurement Department to confirm their assumptions. Failure to consider the needs and requirements of the Procurement Department could prevent or delay the use of contractors in the event of a workload surge.

PBGC has not adequately assessed network capacity to determine whether plans for continued reliance on IT systems are feasible in the event of serious workload surge. OIT has been operating at an "ad hoc" level of IT performance and capacity management, in which servers and storage were added only to support a current project without considering the long-term strategic implications. Within the last two years PBGC has recognized these limitations – and has begun the process of upgrading aging infrastructure and expanding storage capacity of the network. Although PBGC has taken initial steps to address network capacity, a comprehensive network capacity plan has not been developed.

A strategic approach to ensuring PBGC readiness would help prepare the Corporation to deal with future surges in volume, if such surges arise. However, even if no such surge occurs, we believe that implementation of the recommendations included in this report would enhance PBGC's effectiveness and accountability for addressing its current workload.

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Background and Objectives

Background

The Pension Benefit Guaranty Corporation (PBGC) is a federal government corporation established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 29 USC §§ 1301-1461 (ERISA sections 4001-4402). PBGC's mission is to protect the pensions of nearly 44 million American workers and retirees in more than 29,000 private defined benefit pension plans. Under section 4022(a) of ERISA, these pension plans ensure a specified monthly retirement benefit, usually based on salary or a stated dollar amount and years of service. PBGC guarantees these retirement benefits subject to the limitations mandated by section 4022(b) of ERISA.

PBGC receives no funds from general tax revenues; instead PBGC is financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans, by investment income and assets from terminated plans. PBGC has been in a deficit position (where current and future commitments to participants exceed resources) for a number of years. Inadequate minimum contributions, inadequate insurance premiums, employer shift from defined benefit pension plans to defined contribution pension plans and insufficient funding of terminated plans are factors contributing to the deficit. Between the end of fiscal years 2008 and 2009, the deficit in PBGC's single-employer insurance program doubled in size from $10.7 billion to $21.1 billion. In FY 2010 the single-employer program's net position declined by $.52 billion, increasing the programs deficit to $21.59 billion.

PBGC currently pays monthly retirement benefits to nearly 744,000 retirees in 4,001 pension plans. Including those who have not yet retired and participants in multiemployer plans receiving financial assistance, PBGC is responsible for the current and future pensions of approximately 1,476,000 people. Fiscal Year (FY) 2009 presented a significant workload for PBGC, during which the Corporation assumed responsibility for approximately 201,000 new pension plan participants.

PBGC's business process generally begins in the Department of Insurance Supervision and Compliance (DISC) with the identification of a pension plan that is likely for termination/trusteeship. DISC monitors large and high risk pension plans and then makes recommendations to the Trusteeship Working Group (TWG), which is responsible for determining whether to terminate/trustee specific pension plans.

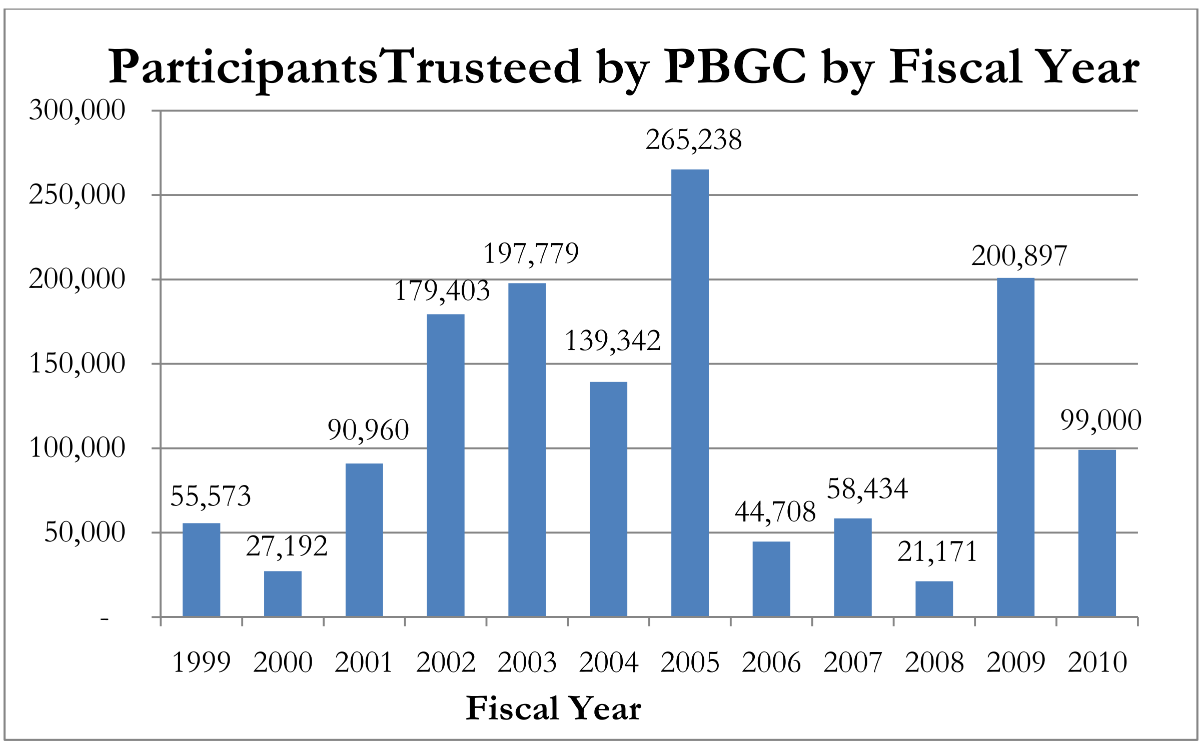
PBGC makes use of a large case working group (LCWG) in dealing with plans or groups of plans with 10,000 participants or $5 million or more of unfunded benefit liability (UBL). This cross functional group comprises representatives from DISC, Office of the General Council, Communication and Public Affairs Department, Financial Operations Division, Investment Accounting Branch, Trusteeship Processing Division and a Large Case Coordinator. Although the LCWG represents a strategic approach with respect PBGC specific plans or groups of plans, the LCWG does not constitute a strategic approach to PBGC overall management of a workload surge.

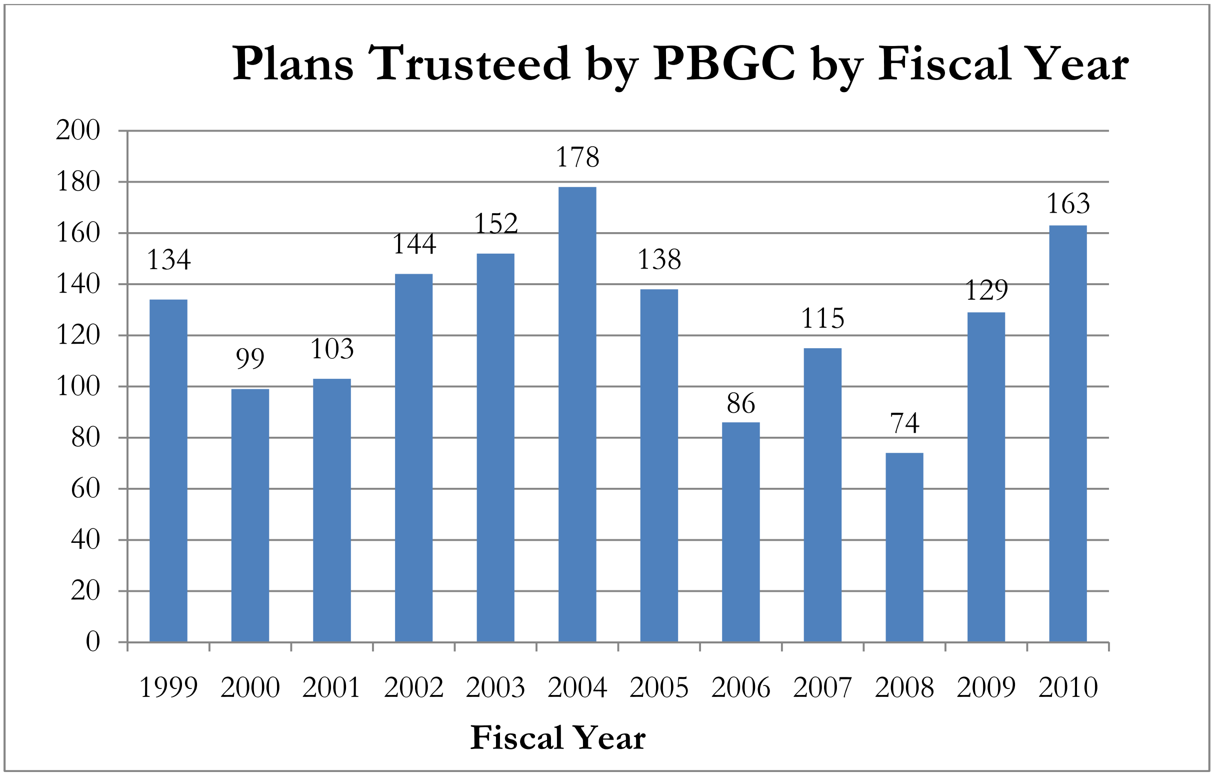
After a plan has been trusteed, BAPD is responsible for performing plan and individual benefit valuations and administering benefit payments. BAPD's overriding goal is to continue paying benefits to plan participants. Initially, an estimated amount is paid to each participant until a final benefit determination can be made. Calculating plan participants' final benefits usually takes several years. In addition to administering benefit payments to plan participants, BAPD:

- Manages PBGC's pension plan termination program,
- Determines the value of plan assets (including unpaid contributions) and liabilities of the terminated plans,
- Provides participant services for trusteed plans, and
- Provides operational actuarial support for selected cases.

For budgeting purposes, on an annual basis, PBGC generally assumes 100,000 participants will be added to the existing workload. The recent global economic downturn caused financial hardships for many businesses in a number of different sectors, which directly impact PBGC's operations and forecasting. The risk of numerous pension plans simultaneously terminating could cause a domino effect requiring PBGC to assume a large number of participants in a short period of time. Conversely, if the economy is strong, PBGC may only assume twenty or forty thousand participants in a given year (see the chart below).

The number of plans that PBGC assumes on a year-to-year basis fluctuates based on numerous factors, mainly the economic strength of the country. PBGC experienced an influx of pension plans from FY 2002-2005, when PBGC became responsible for paying more than 700,000 participants from plans that were terminated and trusteed, primarily from the airline and steel industries (see the chart on the following page). PBGC is experiencing one of the busiest periods in its history. In FY 2009, PBGC terminated and trusteed 129 plans with more than 200,000 participants. During FY 2010, PBGC assumed responsibility for 99,000 additional workers and retirees in 163 failed plans.





In a letter to the PBGC Inspector General, Senator Herbert Kohl, the Chairman of the U.S. Senate Special Committee on Aging, noted his concern regarding reports that some large defined benefit plans may be on the brink of financial distress. While troubled by PBGC's deficit position, he noted a more immediate concern with ensuring that PBGC management is taking steps to strategically prepare the Corporation for the possible influx of such plans and their participants. To this end, he requested the Office of Inspector General to continue its ongoing monitoring of PBGC's planning efforts and to make recommendations for corrective action where needed. This report presents the results of our review.

Objective

Our objective was to assess the plans and actions developed and implemented by PBGC management to enable the Corporation to prepare for a potential influx of defined benefit pension plans with large numbers of participants. Specifically, we examined:

1) the steps PBGC management took to prepare for the possible increase in the number of terminated pension plans;
2) the extent to which an increase in the number of terminated pension plans presented challenges, if any, for PBGC management in relation to the termination of pension plans and the benefit delivery processes;
3) the effectiveness of PBGC processes to identify the requisite resources, such as human capital; and
4) the steps PBGC management engaged to ensure adequate customer service and effective

operations of multiple Field Benefit Administration (FBA) offices in the event of the pension plan terminations.

This evaluation was performed in accordance with standards established by the President's Council on Integrity and Efficiency *Quality Standards for Inspections,* January 2005, and in accordance with the Office of Inspector General (OIG) policies and procedures, specifically the OIG Audit Manual.

Findings and Recommendations

Section A - PBGC Should Take a Strategic Approach in Assessing its Preparedness for a Workload Influx.

Although PBGC developed a listing of the additional resources that might be required in the event of an influx of additional pension plans, the Corporation did not consider the inter-relationships of the various PBGC business units in its planning and did not develop a coordinated approach for use in the event of a workload surge. Agency management initiated a data call request in which each department independently identified the resources needed, based on two volume scenarios: 150,000 new participants annually and 250,000 new participants[2] annually. The data call was made to all departments at the same time and did not include details of how PBGC planned to address the additional volume. As a result, the data submissions from various PBGC departments were inconsistent and, in some cases, illogical. For example, the estimate of additional laptop computers needed was made independently from estimates of additional employees or contractors to be brought on board.

PBGC's estimates of additional resources did not take into consideration opportunities for changes in tactics in the event of a workload surge. That is, documentation did not demonstrate that PBGC had considered whether alternatives to current work processes might allow the Corporation to expand its capacity in new ways. Instead, PBGC leadership advised that they viewed the planning exercise as relevant only to a particular point in time. Once it determined that the major auto makers' pension plans were not at imminent risk for termination, PBGC considered that the planning exercise was no longer important. Leadership advised that it was impractical to develop a "playbook" for future events, given that a workload surge could present itself in many differing ways.

Based on our review, we concluded that PBGC's decision to cease its planning activities was short-sighted at best. PBGC should arm itself with a well thought-out strategy for addressing surges in workload volume, as well as a variety of workable tactics that could be used under various situations. While the specific details of any such approach might not be readily determinable before the nature and volume of terminated plans is known, an overall coordinated approach should be developed to ensure that PBGC leadership is prepared to address workload surges under a variety of different scenarios. Further, unless the Corporation completes its readiness exercise and develops necessary tactics, PBGC leadership will not know whether the agency is prepared to meet the challenge of a major influx.

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[2] For budgeting purposes, on an annual basis, PBGC generally assumes 100,000 participants will be added to the existing workload.

Finding 1 - PBGC planning for an influx of pension plans can be improved.

PBGC needs to develop specific strategies and tactics to be used in the event of a serious workload surge. To date, the Corporation has generally kept its planning activities simplistic and linear. PBGC executive leadership eschewed comprehensive planning activities in part due to a belief that a "playbook" approach, explicitly detailing the steps to be taken, is impractical. To their view, because a workload surge could take many varied and unpredictable forms, the only practical option was reliance on the Corporation's ability to develop and implement an "ad hoc" approach, in the event that a workload surge materialized. Based on our review, we identified a number of specific activities that the Corporation could take to enhance its readiness in the event of a workload surge. These activities could be best implemented as part of an overall strategic plan, an approach that we consider to be a best practice. However, even in the absence of a comprehensive Workload Surge Strategy Plan, implementing the recommendations in this report would help position the Corporation to deal with a significant workload surge.

PBGC's plans should reflect interdependencies between organizational units.

PBGC developed its plan to address a potential workload surge without considering how decisions and actions to be taken by PBGC's core business functions (e.g, DISC and BAPD) would affect or be affected by the decisions and actions of PBGC's support functions (e.g., the Office of Information Technology (OIT), Facilities and Services Department (FASD), Human Resources Department (HRD), and the Procurement Department (PD)). PBGC developed estimates of resource needs based on changes in the number of participants – a linear approach – but did not refine the results by considering potential changes in tactics that might occur in the event of a workload surge. The resulting disconnect between the actions of core and support functions reduced the usefulness of PBGC's resource planning.

In an attempt to plan for the potential influx of participants, PBGC conducted a data call based on two scenarios: an influx of 150,000 participants and an influx of a jumbo plan with 250,000 participants. The data call was initiated by the EMC to identify the resources PBGC would need to handle a large influx of pension plans and participants beyond the assumed 100,000 participants. Specific concerns related to the number of participants the agency would assume if a major automaker or a number of auto parts dealers did not survive the economic downturn.

The data call requested PBGC departments to identify their need for facilities, equipment, services, and human capital (federal and contractor employees) based on the two aforementioned scenarios (150,000 and 250,000 participants). Support functions in PBGC were included in the same data call with core functions.

Based on our review, the support functions reported their estimates of resource needs based on an assumption that the needs would be linear; that is, if twice as many participants were to be processed, then twice as many resources would be needed to do the processing. We did not find evidence that PBGC had considered potential economies of scale or the potential effect of any changes in methods that might occur, in the event of a workload surge. PBGC's approach would have been better if the Corporation had identified the various tactics or options that might be used in the event of a workload surge and then identified the resources associated with each of the various options. This multi-level or waterfall approach would likely result in better estimates of resource needs. More importantly, identification of the relationships between the core and support functions could lead to improvements in PBGC efficiency and effectiveness, regardless of whether a workload surge ever occurs.

We note that one PBGC department made a more complete effort to begin preparing for the potential influx. BAPD independently completed several strategic planning scenarios and sought input from other departments within PBGC. However, these reviews were not designed to serve as the Corporation-wide readiness assessment. BAPD conducted working groups, workload planning meetings and "What if…" scenarios. The exercises completed by BAPD paint a clearer and more realistic picture of how the agency would handle an influx of plans. However, the results and action items were not shared with all levels of PBGC management, and therefore cannot be relied upon as the agency-wide plan to handle an influx of participants.

PBGC's plans should be based on consistent, documented methodologies.

The data call did not include specific instructions regarding how to develop estimates. During our evaluation of the data call submissions, we identified inconsistent methodologies in calculating estimated resources. For example, we found inconsistencies in estimated salary amounts; specifically departments used varying salary scale amounts for the same grade, used different overhead percentages, or did not include overhead at all. Further, not all departments maintained records of methodology and basis for resource requests. For example, OIT could not provide support for the need for approximately 1,000 laptop computers requested. The lack of sufficient guidance or instruction for the data call produced inconsistent results, with inaccurate projections of PBGC's funding and resource needs to handle the potential influx. The inconsistent results occurred because the data call scope was not well defined and the instructions provided to departmental management lacked adequate and specific details.

PBGC's plans for a workload surge should support the Corporation's overall strategic planning process.

PBGC leadership explained their view that the planning exercise was relevant only to a specific point in time. Agency planning ceased after it was determined that termination of the major auto makers' pension plans was no longer an imminent possibility. In response to our inquiries, PBGC management stated that resources should be dedicated elsewhere; the planning that had already occurred had been specific to the auto makers and was never intended to serve as an overall corporate-wide readiness assessment. As the former Chief Administrative Officer stated, "it was a mini-budgeting exercise."

Our review confirmed that PBGC had taken a "point in time" approach to planning for a potential influx of participants. We found little evidence that the strategic and long-term benefits such a planning exercise could provide had been considered. Although agency officials initiated the data call process and discussed a number of different scenarios to obtain additional staff, our review showed that PBGC leadership did not leverage these planning activities. PBGC had an opportunity to build on the "point in time" planning exercise in a variety of ways. For example, a more strategic planning process (in lieu of the "point in time" approach) might have resulted in decisions about options for obtaining additional staff, to include positioning PBGC to make use of tactics such as the use of rehired annuitants, the career intern program or expansion of the existing federal FTE (full-time equivalent) process.

PBGC plans should prepare the Corporation for future workload surges.

Agency officials should continue and enhance planning efforts. The threat of a significant surge in workload for PBGC is far from over. As GAO reported earlier this year,[3] automakers are facing a number of uncertainties in the automotive industry and most notably in their abilities to meet future pension obligations:

> The new GM and the new Chrysler that were established during each company's bankruptcy process in the summer of 2009 assumed sponsorship for all the old companies' U.S. defined benefit plans. Although the pension plans have been maintained, their future remains uncertain. According to current company projections, large contributions may be needed to comply with federal pension funding requirements within the next 5 years.
>
> As new companies, GM and Chrysler have streamlined their operations and have substantially less debt than their predecessors; nevertheless, the future viability of the companies and their pension plans is unclear.
>
> …the funded status of GM and Chrysler pension plans has been declining since 2008. This is due, in part, to the economic downturn, which has brought significant financial stress to many sectors of the economy, including the auto industry. The significant decline in the stock market decreased the value of certain assets (such as equities) and increased the value of others (such as bonds), while low interest rates tended to increase liabilities.

Other sectors of the economy also present a potential challenge to PBGC's ability to deal with a surge in workload. PBGC is listed in GAO's High Risk list, in part, because it continues to be "exposed to the threat of terminations of large underfunded pension plans sponsored by financially weak firms[4]."

The future is difficult to predict. PBGC acknowledged in its FY 2010 Annual Report[5] issued earlier this month that no reasonable estimate could be made of 2011 terminations. That uncertainty, together with the exposure noted by GAO, provides sufficient reason for PBGC to expand and enhance its planning for possible workload surges.

Finding 2 – PBGC should explicitly address the role of contractors in its future plans.

PBGC has not recognized the significant role of contract staff in its plans for a potential influx of terminated pension plans. PBGC's Human Capital Strategic Plan addresses the federal workforce but is largely silent with respect to PBGC's contract workforce. The omission is significant, given that the Corporation utilizes nearly two contract staff for every federal employee (see Appendix B

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[3] "Troubled Asset Relief Program Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future," GAO 10-492 April 2010.
[4] "GAO Strategic Plan 2010-2015" GAO-10-599SP
[5] "Pension Benefit Guaranty Corporation FY 2010 Annual Report," November 12, 2010.

for detailed chart) and has relied on contractors to supplement its workforce since the mid-1980s. As a result, PBGC lacks a strategic approach for managing its reliance on a contract workforce.

PBGC management has acknowledged the difficulty in anticipating workloads due to the unpredictable nature of the domestic and the global economies. Expanding or reducing the contractor workforce is one tool PBGC uses to respond to changes in economic conditions. When OIG asked how PBGC would handle a potential influx of plans, PBGC officials cited their intent to rely on contract staff and identified multiple contracts for labor in diverse areas such as actuarial services, investment management, customer contact centers, and document management.

The U.S Government Accountability Office (GAO) "Framework for Assessing the Acquisition Function at Federal Agencies" (GAO-05-218G, September 2005), identified human capital as one of the four significant cornerstones in promoting an efficient, effective, and accountable acquisition function. Moreover, GAO states that a federal agency's strategic human capital plan should address the use of contractors that provide commercial-type services because of increased reliance on contractors in achieving the agency's mission and goals.

Contracting is critical to PBGC's operations and mission objectives. PBGC's workforce is unique in that contractors comprise nearly two-thirds of the agency's human capital. However, PBGC's influx and strategic planning documents do not reflect the importance of contractors in achieving the agency's mission.

In August 2008, GAO reported on its review of PBGC's contracting practices, "Some Steps Have Been Taken to Improve Contracting, but a More Strategic Approach is Needed" (GAO 08-871, August 2008). GAO found that contractors play a significant role in PBGC's overall workforce, covering a wide-range of services, such as actuarial, information technology and administrative services. Based on the results of its review, GAO recommended that:

> …the Director of PBGC revise its strategic plan and, in drafting the corporation's Human Capital Strategic Plan, reflect the importance of contracting and PBGC's use of contractors, project its vision of future contractor use, and better link staffing and contracting decisions at the corporate level.

PBGC agreed with most of GAO's recommendations but disagreed with incorporating more detail in its strategic planning documents. PBGC's response to GAO stated that the strategic plan was sufficient and comprehensive. However, as GAO noted, the strategic plan only briefly mentions contracting and does not reflect the important role contracting plays in achieving the PBGC mission.

In response to OIG's queries about including contractors in the human capital strategic plan, PBGC management stated it is responsible for managing contracts as opposed to contractors. PBGC management explained that they are focused on attracting, retaining, developing and training federal employees, areas covered in OPM's human capital strategic initiative. Contractors are responsible for the development of their own employees. PBGC management believes it is not the agency's responsibility to ensure that contractor employees are trained, retained and developed. In our opinion, this response misses the point. Notwithstanding that OPM's human capital strategic initiative is focused on federal employees, the fact remains that PBGC's "staff" is composed of almost 2/3 contractors and 1/3 federal employees. Thus, whether PBGC accounts and plans for its reliance on contractors in the human capital strategic plan it submits to OPM or in another companion document, the planning is necessary. As part of that planning, it is PBGC's responsibility to ensure contract terms are followed, including those requiring particular education and experience of contractor, as previously noted in OIG's audit reports (see discussion below).

PBGC officials defended the decision to omit contract labor from the Human Capital Strategic plans based on guidance provided by OPM. We noted that PBGC's plan is consistent with OPM guidance and that OPM is responsible for leading the Federal Government's Strategic Management Human Capital Initiative. If PBGC continues to believe that the Human Capital Strategic Plan is not an appropriate document in which to document PBGC's vision of future contract use, then the Corporation should develop a separate plan to demonstrate the linkage between staffing and contracting decisions at the corporate level, in light of the important role that contracting plays in obtaining staff services for PBGC.

OIG and GAO have both concluded that contractors are an integral part of PBGC's business process and culture. Without contractor support, PBGC could not meet its mission. OIG and GAO have reached the same conclusion because PBGC's workforce is overwhelmingly comprised of contractors. In fact, GAO provided information on the increasing number of contractors and PBGC's own historical records indicate the number of contractors in PBGC's workforce is increasing (see Appendix B for detailed chart). A failure to recognize contractors in the strategic or human capital decision-making process presents an unrealistic portrait of PBGC's workforce and strategic direction.

In prior years, OIG has assessed PBGC's contracting and issued a number of reports with findings, primarily surrounding questionable contractor costs and contractor staff qualifications. For example, in numerous audits, we found that certain contract employees lacked the education or experience required by the contract (see Appendix C for specific OIG reports).

PBGC should acknowledge the critical role of contractors in future, strategic and human capital decisions. Without the support and knowledge base that contractors provide, the agency mission would be in jeopardy. OIG recognizes that OPM did not provide specific instructions for federal agencies to include contractors in human capital strategic planning, but PBGC's unique workforce requires an innovative approach to human capital planning. PBGC management should either develop a stand-alone human capital plan that addresses contractors or dedicate a section in the human capital strategic plan to reflect the importance of contractors in meeting the current agency mission and future needs.

Finding 3 - PBGC should leverage lessons learned after a prior workload surge.

PBGC continues to feel the after-effects of the influx of plans and participants that occurred between FY 2002 and 2005. The Corporation's fragmented and stove-piped IT environment arose as a result of a PBGC management mandate to meet urgent mission objectives by implementing a variety of widely dissimilar and incompatible technologies to cope with the influx of plans. At the time, agency officials did not properly plan and implement IT systems. Rather the business of dealing with the surge of plans and ensuring participants' benefits were paid drove the IT development. The result was a series of stove-pipe solutions built on unplanned and poorly integrated technologies. Many of these technologies are still relied on by PBGC today.

As part of our review, we found that PBGC OIT and the business units had not comprehensively assessed the impact that the previous influx had on system infrastructure, design, configuration, storage capacity, and other strategic areas. This assessment is important if PBGC is to avoid repeating the problems created during the prior workload surge. At that time, short term decisions made in support of the agency mission superseded proper IT planning.

The FY 2009 PBGC FISMA report states that PBGC's IT security leaves participants' personally-identifiable information (PII) at risk. PBGC is responsible for the current and future pensions of about 1,476,000 people. OIG has reported that:

- Significant deficiencies were present within PBGC's information security for the past eight years as noted in the annual financial statement audit reports.[6]
- High and medium vulnerabilities on the PBGC network were identified by security scans completed by OIG in FY 2008 and 2009 and some of the vulnerabilities present in FY 2008 reappeared in FY 2009.[7] FY 2010 vulnerability and penetration testing showed similar results.
- Significant deficiencies were identified in: 1. Entity-wide security program planning and management, 2. Access controls and configuration management, and 3. Integrated financial management systems as reported in the Report on Internal Controls related to PBGC's FY 2010 and 2009 financial statements.[8]
- Weaknesses were noted in encryption, incident reporting, and system documentation as noted in OIG's FY 2009 FISMA report.[9]

PBGC has the opportunity to use the influx of FY 2002 – 2005 as a dry run from which to learn lessons that can be used in the event of a future workload surge. However, to date, the Corporation has not adequately considered ways to mitigate the types of problems that were previously encountered. As a result, the planning and resource documents prepared by OIT and the business units do not directly address actions that PBGC could take to avoid repeating the mistakes of the past.

[6] "Audit of the Pension Benefit Guaranty Corporation's FY 2010 and 2009 Financial Statements," AUD-2011-2/FA-10-69-1 http://oig.pbgc.gov/audit/2011/pdf/FA-10-69-1.pdf

[7] "Fiscal Year 2009 Vulnerability Assessment, Penetration Testing, and Social Engineering Report," EVAL-2010-6/FA-09-64-6, March 2, 2010 http://oig.pbgc.gov/audit/2010/pdf/FA-09-64-6.pdf

[8] "Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Financial Statements Audit," AUD-2011-3/FA-10-69-2, November 12, 2010 http://oig.pbgc.gov/audit/2011/pdf/FA-10-69-2.pdf

[9] "Fiscal Year (FY) 2009 Federal Information Security Management Act (FISMA) Independent Evaluation Report," November 18, 2009 http://oig.pbgc.gov/audit/2010/pdf/fisma.pdf.

Recommendation 1:

Develop and implement a cohesive, integrated and centrally managed Workload Surge Strategy Plan with all the roles and responsibilities of the relevant core and support functions and their inter-relationships clearly defined (**OIG Control Number PBGC-001**).

PBGC Response:

Based on PBGC's conclusion that the risk of a large influx of pension plans is lower than in 2009, PBGC proposed, as an alternative to OIG's recommendation, modifying the existing Large Case Working Group to handle more than just large cases. Specifically, PBGC proposed the development of a Large Influx Working Group (LIWG) Planning Document as a basis for alternative actions to address the recommendation. The role of the LIWG will include:

- Handle other situations (such as an industry failing), in addition to individual large plans;
- Define triggers that would initiate the LIWG to plan for different circumstances;
- Identify dependencies and sequencing in planning (e.g. business areas first and then the support areas based on business area plans);
- Ensure support functions such as Human Resources, Facilities, Information Technology and Procurement have sufficient information and involvement; and
- Ensure contract ceilings and scopes are specifically considered in approaches.

OIG Evaluation:

It will be necessary for OIG to review the LIWG Planning Document before we can determine whether PBGC's proposed approach will adequately address this finding and recommendation. Additional detail about the Corporation's approach to the LIWG will allow us to determine whether we can agree with PBGC's proposed management decision.

Recommendation 2:

Coordinate the Corporation-wide development and implementation of the Workload Surge Strategy Plan with the EMC and key department directors, to include the Director of PD and the Director HRD. Facilitate this coordination by ensuring that the methodologies used to develop plans are consistent and that key decisions are documented (**OIG Control Number PBGC-002**).

PBGC Response:

As an alternative to the recommendation, the Corporation proposed developing a Directive to ensure there is corporate-wide understanding and vetting of the Large Influx Working Group and planning documentation.

OIG Evaluation:

It will be necessary for OIG to review the Directive before we can determine whether PBGC's proposed approach will adequately address this finding and recommendation.

Recommendation 3:

Develop a workforce strategy tailored to address gaps in numbers, deployment, and alignment of the human capital to be obtained through contracts. This strategy, which might incorporate aspects of PBGC's Human Capital Strategy, should reflect the importance of the contract workforce to PBGC and support linkage of staffing and contracting decisions at the corporate level (**OIG Control Number PBGC-003**).

PBGC Response:

As an alternative the Corporation proposed:

- Identifying contract work (not contracts) that will be relied on in large influx situations.
- Identifying contract work where there are limited market alternatives, hence requiring increased managerial awareness.
- Creation of a capacity model that can be used to project the impact of an influx on existing contracts.
- Annual and as needed COTR reviews of projected workloads, including an evaluation of existing contractors to gauge capacity.
- In scenarios where the Large Influx Working Group is acting, COTRs will identify areas that have potentially limited capacity and plan accordingly.

OIG Evaluation:

It is unclear how the Corporation will implement the alternative actions proposed. PBGC's response does not provide details regarding how, when and who will perform the proposed reviews and modeling proposed. Additional detail about the Corporation's approach will allow us to determine whether we can agree with PBGC's proposed management decision.

Section B - Ensuring the Feasibility of Plans and Developing Tactics to Address an Increased Workload

PBGC did not ensure the feasibility or workability of tactics intended to be used to process workload surges of 150,000 and 250,000 participants. For example, while PBGC leadership plans called for modification of certain key contracts as needed to provide additional resources, the Procurement Department was not consulted regarding the feasibility of this approach. With regard to information technology, PBGC management has stated that adequate infrastructure is in place to handle an influx, despite the fact that PBGC has not completed a comprehensive capacity management plan.

Finding 4 – Plans for expanding the use of contractors should be coordinated with the Procurement Department.

One of the major tactics that PBGC plans to use in the event of a workload surge is expanding its workforce through modifications to current PBGC services contracts. Although the plans of several departments called for hiring contractors to fill gaps in critical skills and competencies and, in some cases, assumed that current contracts could be amended, the Procurement Department was not consulted about the feasibility of these plans. PBGC officials identified multiple contracts that would require modifications to meet increased demand for pension plan processing, to include actuarial, investment management, and document management contracts. However, PBGC has not developed a process for ensuring that identified contracts can be expanded as needed or that necessary resources are available and ready to support the award and oversight of new contracts.

The Procurement Department has a significant role in the solicitation and award of contracts to meet PBGC's request for additional contract staff or new work, as well as modifications and terminations of contracts. As such, PBGC departments should communicate their plans for expanded requirements to the Procurement Department so it can determine whether new contracts are required or existing contracts can be modified and required documents can be developed and implemented in an appropriate and timely manner. However, our review showed that PBGC did not adequately coordinate with the appropriate Procurement Department personnel to discuss the methodology and procedures for modifying contracts and ensure the feasibility for plans that depended on expanded contactor participation.

The Procurement Department can provide important insight to the workability of plans to expand the use of contracts in the event of a workload surges. Some plans that might seem simple can present challenges. For example, a manager's plan to increase the number of professional staff through modification of an existing contract would require a determination of whether the modification was within the scope of the original contract. This determination may include consultation with the Office of the General Counsel. Other considerations might include the contract type to be used (e.g., labor hour or fixed price) and whether the need is a temporary or permanent increase in workload. Thus, we concluded that PBGC plans to expand the use of contractors in response to a workload surge should be carefully coordinated with the Procurement Department to ensure that the plans can be carried out as designed or, alternatively, that the necessary resources are in place for the award and oversight of new contracts.

Recommendation 4:

As part of planning for the workload surge, ensure that business units vet the feasibility of plans to expand existing contracts with subject matter experts in the Procurement Department (**OIG Control Number PBGC-004**).

PBGC Response:

As an alternative to the recommendation, the Corporation proposed incorporating contract ceilings and scope evaluations in the Large Influx Working Group Planning Document to be developed.

OIG Evaluation:

OIG will review the LIWG Planning Document, when developed by PBGC, to determine whether PBGC's proposed approach will adequately address this finding and recommendation.

Finding 5 – PBGC plans for a workload surge should include an assessment of network capacity.

Because PBGC has not fully assessed its current capacity and future needs, to include identifying network weaknesses and bottlenecks, uncertainty exists as to whether PBGC's current infrastructure can support a large influx of participants and the associated additional worksites that might be needed. PBGC mission activities are highly dependent upon information technology, including the business network. Development of a comprehensive IT performance and capacity management plan would help ensure that PBGC would be able to handle a workload surge without deterioration of service.

PBGC has not developed a capacity plan that documents the current levels of resource utilization and service performance. For a number of years, PBGC has been operating at an "ad hoc"[10] level of performance and capacity management by adding servers and storage only to support a current project with little regard for the long-term strategic implications. As a result, PBGC has not been able to forecast future requirements for IT services and resources, and performance levels are at risk.

Within the last two years PBGC has recognized the limitations associated with an "ad hoc" level of performance; in response to noted concerns, the Corporation established an enterprise architecture group and a process to complete a capacity management plan. Further, PBGC contracted for an

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[10] ***Initial/Ad Hoc.*** When users devise workarounds for performance and capacity constraints, there is very little appreciation of the need for capacity and performance planning by the owners of the business processes. Action taken toward managing performance and capacity is typically reactive. The process for planning capacity and performance is informal. The understanding of current and future capacity and performance of IT resources is limited. *Control Objectives for Information and related Technology* (COBIT 4.1), *Manage Performance and Capacity Maturity Model* © 2007 IT Governance Institute.

independent assessment of the database infrastructure. PBGC has begun the process of upgrading aging infrastructure and expanding storage capacity of the network.

PBGC is also taking steps to address the issue of static storage capacity. With the addition of new servers to house the business applications and the upgrade of network storage capacity, PBGC now has 65 terabytes (TB) of physical disk space, of which 35 TB has been allocated for participant storage. Presently, only 1.5 TB of the total allocated space is occupied by participant data records; and it is estimated that the 35 TB of space is sufficient to hold data records for well over 100 million participants. The estimate was based on raw system data calculations regarding roughly 2.5 million participant records stored over all PBGC databases, with each participant using approximately 315 kilobytes[11] (KB) of disk space.

Static storage capacity is only one piece of the overall measure of network performance and capacity. Performance and capacity planning must also take into account the application load on the systems and the overall performance of a business network that uses bandwidth for normal operations such as messaging, Internet traffic, directory services, and file/print services. PBGC describes its network architecture as both hierarchical and scalable. Essentially, the PBGC wide-area network (WAN) and local-area network (LAN) were created so that the bandwidth/capacity available at the core cannot be exceeded by the aggregate of the WAN links. As of October 2010, PBGC had eight remote sites including six FBAs and two post valuation administration (PVA) sites. PBGC IT management estimates that the network could support 28 remote sites before reaching a capacity that could potentially cause bottlenecks and performance lags.

Based on PBGC OIT reporting, the network is utilizing 10-15% capacity with spikes approaching 40%. Nevertheless, PBGC occasionally experiences slowness during connectivity due to high CPU load utilization. PBGC states that it also has back-up circuits in place that are not utilized and could be quickly configured to carry network traffic in the event the primary circuit becomes overloaded. PBGC's network monitoring center monitors network usage and is required to alert OIT network capacity management team when spikes hit 70%. At that point, OIT officials stated they will assess utilization and begin to plan for adding additional network capacity.

PBGC has taken some proactive steps to ensure adequate network capacity. For example, PBGC reports that it recently completed a project to implement an automated monitoring system for capacity management that will produce useful metrics for the eventual development of a capacity and performance plan. However, until that plan has been developed and implemented, PBGC lacks assurance that its networks will be able to respond in the event of a significant workload surge.

Recommendation 5:

Develop and implement a capacity plan that documents the current levels of resource utilization and service performance and that includes plans to ensure that the systems are ready to support increased workloads that might occur with an influx of new plans, to include the addition of other off-site locations such as additional FBAs (**OIG Control Number PBGC-005**).

[11] 1,073,741,824 kilobytes = 1 terabyte

PBGC Response:

PBGC management believes that OIT is already undertaking steps to address capacity management, as part of other OIT findings and recommendations from OIG. PBGC proposed leveraging those existing efforts including periodic management briefings to discuss the results of the workload modeling tool and changes in workload projections.

OIG Evaluation:

OIG concurs with this response.

APPENDIX A - Scope and Methodology.

Our review was performed at the request of Senator Kohl, Chairman of the Special Committee on Aging. We assessed the completeness, adequacy, and effectiveness of the plans and actions developed and implemented by PBGC management to enable the Corporation to sufficiently prepare for and manage the potential influx of defined benefit pension plans with large numbers of participants.

The engagement was performed at the PBGC Headquarters in Washington, D.C. Our scope included a review of the current planning activities that occurred between January 2009 and November 2010. We were cognizant that these plans and actions we reviewed had not been finalized and were subject to refinement and revision by PBGC management. To accomplish our objectives we:

- Interviewed appropriate PBGC executive management officials and various PBGC key departmental officials and staff.
- Reviewed policies and procedures of PBGC operations related to pension plan termination and benefit delivery processes including human resources, inventory, information technology, office space, fiscal and budget management, procurement, and customer service.
- Reviewed and analyzed multiple documents and presentation slides obtained from various PBGC departments related to the preparation for the potential influx of pension plans including the:
    - Analysis of the major industrial sectors being monitored by DISC
    - Analysis of the impact on resources (human, technology, capital and infrastructure)
    - PBGC Headquarters and FBA workload planning and tracking
    - Large Case Working Group Documents
    - "What If" scenarios, lessons learned, after action plans, and summary of resources
    - List of pension plans approved for terminations as of July 31, 2009 and tracking of pension plans undergoing various stages of case processing towards termination as of June 15, 2009
    - Narrative of pension plan case processing from monitoring by DISC to termination valuation and benefit payment processing by BAPD as provided by the Benefit Determination Cycle manual
    - Status and progress of PBGC customer call service including reviewing the COO monthly statistics, participant caller survey, and call center metrics
    - Various procurement contracts (competitive, indefinite delivery indefinite quantity, and direct) related to:
        - ✓ providing services to PBGC such as actuarial, data administration and management, information systems management, audit, legal, investment, and benefit payment
        - ✓ capacity to expand and/or modify terms and conditions of existing contracts and change clauses where applicable.

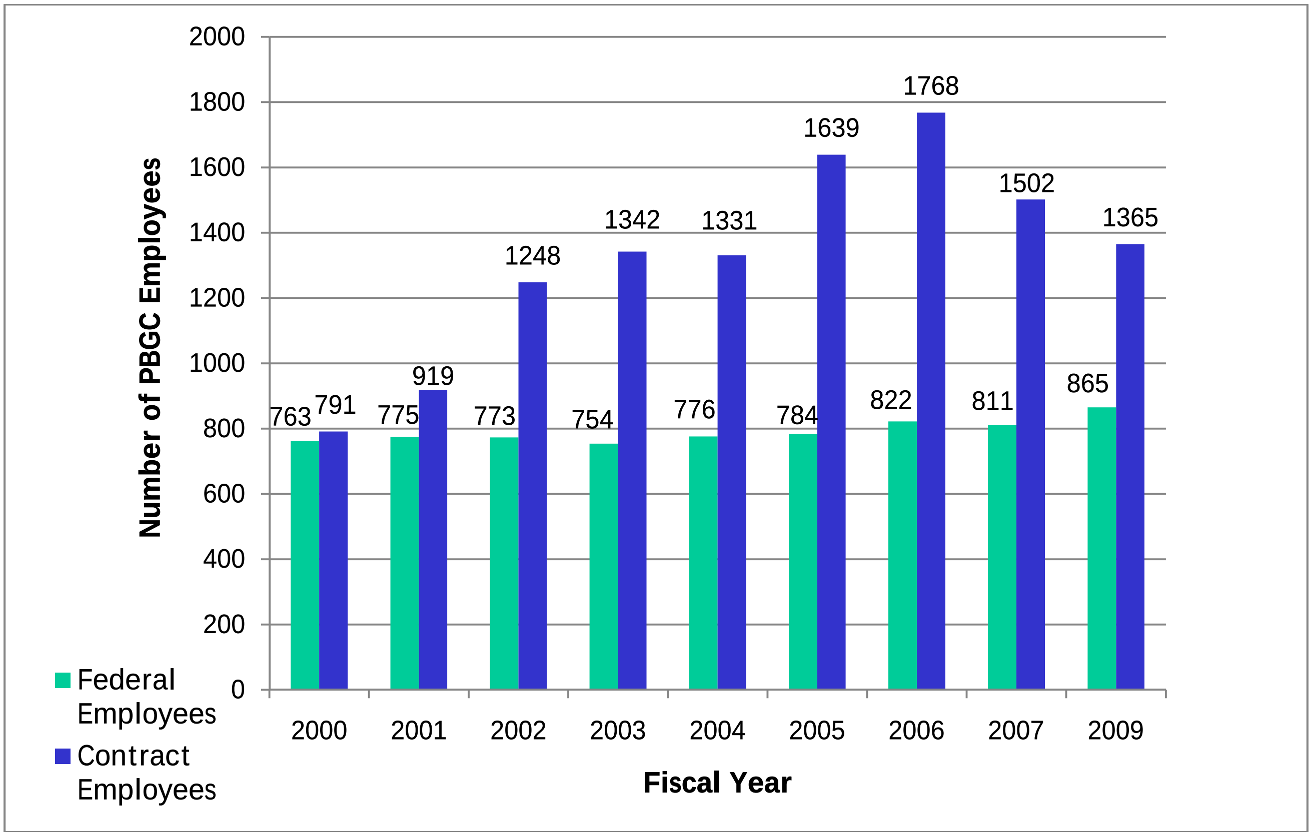
During the course of our review we became aware of concerns related to changes in contractual labor category qualifications for the FBA and PVA remote sites. We noted that after contract award some contractual labor category qualifications were changed via the contract modification process.

Based on our discussions with PBGC management, the Corporation solicited a contractor to provide a thorough and objective assessment of PBGC practices associated the acquisition, planning and contract administration for the remote site contracts. The resulting report titled "Lessons Learned Analysis of Labor Category Changes" was issued on October 29, 2010. The report confirmed OIG's initial observations and made fourteen recommendations for improvement in PBGC's contract modification process.

This evaluation was performed in accordance with standards established by the President's Council on Integrity and Efficiency *Quality Standards for Inspections,* January 2005 and in accordance with the Office of Inspector General (OIG) policies and procedures, specifically the OIG Audit Manual.

APPENDIX B – Federal vs. Contract Employees

Total Number of PBGC Federal and Contract Employees, FY 2000-2007 and 2009



Note: Historical PBGC data 2000-2007 – source GAO report GAO-08—871.
2009 data was provided by PBGC Human Resources Department and Budget Department, as of June 2009.
PBGC contract employee data for fiscal year 2008 was not available.

APPENDIX C– OIG Contract Audit Reports.

- Management Letter - Spectrum International, Inc., September 30, 2008

- Management Letter – Paragon Technology Group, Inc. and TechGuard Security, LLC, September 25, 2008

- "Independent Accountants' Report On Applying Agreed-Upon Procedures for Costs Incurred by Keane Federal Systems, Inc. Under Contract No. PBGC01-CT-04-0687 for The Fiscal Years Ended September 30, 2004, 2005 & 2006," PBGC OIG Report No. 2007-15/CA-0039, September 27, 2007.

- "Incurred Cost Audit of Integrated Management Resource Group under Contract No. PBGC01-CT-03-0652 for the Fiscal Years October 1, 2002 through September 30, 2006," PBGC OIG Report No. 2007-8/CA-0033-1, September 26, 2007.

- "Agreed-upon Procedures Report for Costs Incurred by Paragon under Contract No. PBGC01-CT-06-0757 for Fiscal Years Ended September 30, 2006 and 2007," PBGC OIG Report No. 2008-13/CA-0046, September 30, 2008.

- "Agreed-upon Procedures Report for Costs Incurred by Spectrum International, Inc. under Contract No. PBGC01-CT-03-0654 for Fiscal Years Ended September 30, 2006 and 2007," PBGC OIG Report No. 2008-12/CA-0050, September 30, 2008.

- "Agreed-upon Procedures Report for Costs Incurred by TechGuard under Contract No. PBGC01-CT-05-0739 for Fiscal Years Ended September 30, 2006 and 2007," PBGC OIG Report No. 2008-11/CA-0047, September 30, 2008.

APPENDIX D– PBGC Response

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

November 12, 2010

To: Joseph Marchowsky
Assistant Inspector General for Audit

From: Richard Macy
Chief Operating Officer and Acting Chief Information Officer

Subject: Response to Evaluation No. 2011-1 / PA-09-65 (Evaluation of PBGC's Strategic Preparations of a Potential Influx)

PBGC appreciates the opportunity to respond to the findings and recommendations contained in the Inspector General (IG) Evaluation No. 2011-1 / PA-09-65 relating to PBGC's work in anticipation of a potential influx of pension plans during FY2009. Before getting to responses to the specific recommendations, we believe it is worthwhile to understand the historical patterns and components of large influxes of trusteeships and PBGC's approach to them, as well as the purpose of the exercises that PBGC initiated in FY2009.

1 Historical Influx in Plans

PBGC has had five years where the number participants in trusteed plans exceeded our normal planned budget of 100,000 participants. In these years, the primary driver for exceeding the 100k threshold was a handful of large plans, as shown by this table.

Fiscal Year	Trusteed Plans*	Trusteed Participants	Plans w/ more than 10k participants*	Participants in Plans w/ more than 10k participants
2002	144	186,503	4	102,066
2003	152	206,000	3	114,548
2004	178	147,518	2	33,865
2005	138	269,000	8	197,343
2009	129	200,917	6	144,828

* These numbers include individual plans that may be part of a "family" of plans for a single corporation (e.g. United Airlines, National Steel, etc.)

2 PBGC's Historical Approach

In the early 1990s, in response to Pan Am and Eastern Airlines, PBGC formed a Large Case Working Group (LCWG) comprised of all interested PBGC functions (i.e. DISC, OCC, OGC, HRD, PD, Budget, BAPD, FOD, OIT, CPAD, and others) to discuss the specifics of each large trusteed case and work collectively on the agency's approach and determine what resources are needed. The Management Coordination Division within BAPD chairs the LCWG.

To facilitate LCWG discussions and decisions, PBGC created a LCWG Planning Document that outlines the data and information to be collected, decisions that need to be made and broad responsibilities of each of the participating parties. As part of our preparations to the anticipated influx, this document was materially improved during FY2009 at the request of the Director of PBGC.

While PBGC has encountered bumps along the way, this approach has proven successful in delivering the service to participants of these plans -- participants continue to receive benefits, their questions are answered timely and our customer service scores remain high (in comparison to Federal averages).

3 Lessons Learned Over Time

PBGC retains a collective knowledge of what has and has not worked well in its approach to handling large trusteeships. These lessons are applied with each new case so that our approaches have evolved over time. Some of the lessons learned over the years are:

3.1 Don't stand up individual applications

To automate functions in response to the large plans trusteed in 2002-2005, PBGC built systems for specific functions for short-term relief. We have learned that we cannot automate specific functions without maintaining an overall strategy for systems delivery. Since 2007, PBGC has been rationalizing and retiring the one-off applications and incorporated the functions needed as part of an overall suite of six applications. With the large plans trusteed in 2009, PBGC incorporated individual plans' needs into existing applications instead of "standing up" new applications.

3.2 Don't split large plans and families of plans across TPDs

On a few instances, our need to meet large plan workloads led us to split large plans between two Trusteeship Processing Divisions (TPDs). The duplication of knowledge and additional coordination required between two TPD teams caused some delays, rework and inefficiencies. With the large plans trusteed in 2009, PBGC made sure that each TPD had the sufficient resources and bandwidth to handle the large plans within a single TPD.

3.3 Participant meetings, while beneficial, cause delay in issuing final BDs

Historically, PBGC took great pride in holding meetings with participants in newly trusteed plans and it is a great service to the participants that attend the meetings. However, they are a major drain on resources (staff and contractor). This problem is especially acute with large plans that have participants scattered across many locations. Additionally, the PBGC staff and contractors who are processing the plan must divert their attention to answering individuals' questions after each meeting. This process often stretches over months as each individual at the meeting who asks for clarifications on their benefits has their questions answered. PBGC estimates that participant meetings can add up to a year in the overall processing time. In 2009, PBGC resisted holding participant meetings to enable plan teams to focus on processing the plan as quickly as possible. Instead, tailored plan specific web pages are utilized and for Delphi, specific Salary and Hourly videos were created as an alternative to participant meetings.

3.4 Leverage existing union and other groups

PBGC has developed good relationships with unions and other interested groups to help deliver messaging, and even administration. This has become a PBGC best practice. Both parties want participant expectations addressed. For the large Delphi plans trusteed in 2009, PBGC partnered with the various Delphi groups to not only help craft and deliver messaging but also to also deliver training to 200 union benefit administration personnel. While taking time, PBGC feels the payback of this effort has been significant on several levels.

3.5 Large pension plans are unique and require specific approaches

Over the years, PBGC's assumption that plans are unique, especially large ones, has proven true. The LCWG ensures necessary data and facts are gathered and then the overall approach is decided on and communicated. For the large plans trusteed in 2009, the LCWG coordinated several unique provisions of Delphi, not the least of which was the necessary steps needed for GM to "top off" the Hourly participants.

3.6 Leverage HR staff

PBGC consulted with and, in some cases, hired the HR staff of the failed pension plan's company. The retained knowledge is invaluable to understanding plan provisions, administration and practices, where records are kept and participant expectations.

3.7 Leverage existing vendors

PBGC is more and more leveraging a plan's existing vendor for the timely delivery of services, when possible. For the large plans trusteed in 2009, PBGC worked closely with Fidelity – GM and Delphi's pension plan administrator to coordinate call center activities, participant messaging and data delivery and worked collaboratively to handle the uniqueness of the union top-off requirement.

4 Budget

PBGC has worked with OMB to ensure that PBGC's budget includes funding flexibility to get the resources needed for PBGC to handle large fluctuations in workload. Historically, this was done on a plan-by-plan basis or by grouping plans -- PBGC requested additional budget resources each time we trusteed a large plan(s). In FY2007, we developed the concept of "triggers" which would provide a formal mechanism for the approval of budget to address large trusteeships. This has evolved over the past few years to enable PBGC to request two year budget to accommodate large participant intake, specifically $9.8M for every 20,000 participants over 100,000 that PBGC trustees in any given fiscal year. This was successfully applied to the 200,000 participants that PBGC trusteed in FY2009.

5 PBGC Recent "Tsunami" Planning Exercises

In the summer and fall of 2008, the indicators of risk tracked by PBGC's Department of Insurance Supervision and Compliance were rapidly growing, thus raising the possibility that we would face trusteeship workloads not seen before, perhaps along the lines of a "100-year flood." Specifically, those risks included:

(1) The auto sector was in severe distress and the automakers' plans are significantly larger than anything we have dealt with in the past, and
(2) The possibility of many smaller and medium-sized plan terminations that would represent, in the aggregate, significantly more participants than we had experienced in the past.

We went through several "what-if" exercises beginning in March 2009. As events unfolded, we clarified the exercise to think about resource requirements based on receiving 140-160k participants and a large auto industry plan termination. The agency went through the data gathering process to determine likely dollar and FTE needs. BAPD specifically went through the process of determining what could be done to prepare for the workloads and how to best handle a large auto sector case if one were to be trusteed.

In June 2009, it became clear that no large automaker plans would be terminated as part of their restructuring and, thus, PBGC planning for such an outcome ceased. Additionally, it was clear that with four months left in the year that the "100-year flood" was not coming and we returned to relying on the Large Case Working Group to handle the several large plans trusteed, the most challenging of which was Delphi with 70k participants. As noted above, FY2009 was the third highest volume of trusteed participants that the agency has experienced.

6 Current Surge Risk Analysis

Underfunding in financially weak companies remains at high levels and the insurance program continues to face substantial long term risks, but the near term outlook for large plan trusteeships has improved significantly from what it was during the economic crisis in 2008 and 2009. As a result, the near term risk that PBGC will face unprecedented trusteeship workloads is significantly lower than it was in early FY2009. This view is based on several factors, including:

- A return to "normal" volumes of participants in new trusteed plans in FY2010 (fewer than 100,000 participants). As of September 30, 2010, PBGC's liabilities for probable losses in the single-employer program were down to approximately $1.4 billion (not final, unaudited). Among the companies specifically classified as probable losses, the largest has approximately 23,000 plan participants. That company emerged from bankruptcy just after year-end, so its contingency classification will be changed to a lower level of risk. Each of the remaining companies specifically classified as probable losses has fewer than 10,000 participants.
- Several companies with large underfunded pension plans emerged from bankruptcy with their pension plans ongoing during 2010. These companies include Asarco, Cooper-Standard Automotive, Freedom Communications, Idearc, Lear Corporation, LyondellBasel Industries, Media News, and Smurfit-Stone Container Corporation. We expect several more companies, also with large underfunded pension plans, will emerge from bankruptcy with their pension plans ongoing in first quarter of FY 2011.

7 Recommendations and Management Response

If PBGC were facing the level of work that our early indicators warned us of in the beginning of FY09, PBGC would generally agree with the recommendations contained in the Evaluation. Given our determination that the risk of a large influx (beyond what we have experienced in the past) of pension plans is much lower now, PBGC feels that the resources that would be required to execute on the recommendations would be better served in addressing higher priorities including IG raised needs to implement IT controls and security, improve pension determination auditing processes, integrate financial systems, and strengthen procurement to improve PBGC's services in addition to satisfying other Federal mandates, such as Hiring Reform. Therefore, we offer the following alternative recommendations that take into consideration a smaller effort that is more in line with the current risk level of trusteeing plans in excess of historical numbers.

Recommendation 1: *Develop and implement a cohesive, integrated and centrally managed Workload Surge Strategy Plan with all the roles and responsibilities of the relevant core and support functions and their interrelationships clearly defined.*

Management suggests that to fulfill the goals of this recommendation, the Large Case Working Group serves as the foundation. To that end, Management will modify the working group to handle more than just large cases and make improvements in planning that the IG has identified. Specifically, management will change the Large Case Working Group to the Large Influx Working Group (LIWG) by building out the LCWG Planning Document to:

- Handle other situations (such as an industry failing), in addition to individual large plans;
- Define triggers that would initiate the LIWG to plan for different circumstances;
- Identify dependencies and sequencing in planning (e.g. business areas first and then the support areas based on business area plans);
- Ensure support functions such as Human Resources, Facilities, Information Technology and Procurement have sufficient information and involvement; and
- Ensure contract ceilings and scope are specifically considered in approaches

It is important to note that Management is not committing to identifying solutions to influxes unknown at this time, but rather, to extend the Large Case Working Group approach to establish structures, processes and procedures that would be taken to arrive at solutions, should large influxes be anticipated in the future.

Recommendation 2: *Coordinate the Corporation-wide development and implementation of the Workload Surge Strategy Plan with the EMC and key department directors, to include the Director of PD and the Director HRD. Facilitate this coordination by ensuring that the methodologies used to develop plans are consistent and that key decisions are documented.*

Management suggests the following approach to Recommendation 2 -- to ensure that there is corporate-wide understanding and vetting of the Large Influx Working Group and its Planning Document, have the LIWG be covered by a Directive, thus enabling the complete and full review of the LIWG.

Recommendation 3: *Develop a workforce strategy tailored to address gaps in numbers, deployment, and alignment of the human capital to be obtained through contracts. This strategy, which might incorporate aspects of PBGC's Human Capital Strategy, should reflect the importance of the contract workforce to PBGC and support linkage of staffing and contracting decisions at the corporate level.*

Management proposes this alternative approach to Recommendation 3, as follows:

1) Identify which contract work (not contracts) will be relied on in large influx situations
2) From the list in (1), identify the contract work where there are limited market alternatives that would need to be managed carefully
3) Create a capacity model that can be used to project the impact of an influx on existing contracts related to the work identified in (2).
4) Have COTRs annually and as needed review projected workloads with existing contractors to gauge capacity.
5) In times where the Large Influx Working Group is acting, have COTR's identify those areas that have potentially limited capacity and plan accordingly.

Recommendation 4: *As part of planning for the workload surge, ensure that business units vet the feasibility of plans to expand existing contracts with subject matter experts in the Procurement Department.*

Management proposes to incorporate the contract ceiling and scope issue specifically in the Large Influx Working Group Planning Document referenced in the response to Recommendation 1.

Recommendation 5: *Develop and implement a capacity plan that documents the current levels of resource utilization and service performance and that includes plans to ensure that the systems are ready to support increased workloads that might occur with an influx of new plans, to include the addition of other off-site locations such as additional FBAs.*

Management believes, as referenced in the Evaluation, that OIT is already undertaking steps to address capacity management, as part of other OIT findings and recommendations from OIG. We would prefer to leverage those efforts rather than creating new ones. Management will periodically share the workload modeling tool results and changes (that is discussed in Management's Response to item #3) with OIT to build into workload projections.

If you want to report or discuss confidentially any instance of misconduct, fraud, waste, abuse, or mismanagement, please contact the Office of Inspector General.

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