

STATEMENT OF DAVID M. STRAUSS
Executive Director
PENSION BENEFIT GUARANTY CORPORATION

EXECUTIVE SUMMARY

The Committees asked me to address three issues: PBGC customer service, contract management, and computer security.

I PBGC Customer Service

The Committees have raised important questions about PBGC customer service, including the timeliness and accuracy of the PBGC's benefit determinations. I understand the Committees' concerns and I have tried to address them. Over the last three years, we have reformed our benefit determination process to accelerate the issuance of final benefit determinations and improve their accuracy. It is important to note that there is no delay in paying benefits to people when we take over a pension plan. We pay estimated benefits until we determine final benefits. For most people, there is no change between estimated and final benefit amounts.

In addition, soon after the PBGC trustees a plan, I often meet personally with plan participants. During the three years that I've been at the PBGC, I have attended almost 100 participant meetings -- virtually every meeting held since I became Executive Director -- and I personally met with more than 8,000 participants.

The PBGC's IG reported to the Committees on our past processing times. We agree with the IG that these past processing times were too long. However, we have significantly improved our operations and shortened the time it takes to issue benefit determinations, which the IG noted in his second report.

II Contract Management

At the Committees' request, the GAO reviewed the PBGC's contract management. The GAO found that, while we complied with all legal requirements, there are areas where the PBGC can further improve its operations through better contracting procedures and monitoring. We agree and have already begun implementing the GAO's suggestions.

III Computer Security

We have been working with the Committees on the PBGC's computer security efforts to protect participant records. We have enhanced our computer security to make sure that our electronic participant records and benefit information files are safe from misuse or compromise.

Mr. Chairmen and Members of the Committees:

Good morning. It is a privilege to be back in the Senate where I worked for 13 years as a Senate Chief of Staff and as Staff Director to the Senate Committee on Environmental and Public Works.

I appreciate this opportunity to address the issues that the Committees have raised concerning PBGC customer service, contract management, and computer security. I share the Committees' concerns, and have addressed many of these same issues during the three years that I have been Executive Director of the PBGC. I look forward to working with the Committees to continue to make progress in these areas.

This morning, before I discuss the three issues on which you invited me to testify, I want to give you some background about the PBGC.

BACKGROUND ON THE PBGC

The PBGC was established in 1974 as a wholly-owned federal corporation. We administer an insurance program that protects the pension benefits for participants in private-sector defined benefit pension plans -- plans that promise workers a specific monthly benefit for life at retirement based on age, salary, and years of service. The PBGC provides protection for 43 million American workers and retirees in nearly 40,000 private-sector defined benefit pension plans.

The PBGC assumes control of underfunded pension plans of bankrupt companies and administers the plans. We have taken responsibility for nearly 3,000 terminated pension plans with about 500,000 participants and beneficiaries. The PBGC pays retirement benefits based on the provisions of each pension plan it takes over. This means, in effect, that we are operating almost 3,000 benefit programs, no two of which are exactly alike.

Our operations are financed by insurance premiums paid by plan sponsors of covered plans, assets from the pension plans that we trustee, recoveries from employers that terminate underfunded plans, and investment income.

Each month we pay over \$75 million in benefits to more than 215,000 retirees, and we will pay benefits to nearly 320,000 more when they become eligible in the future. For example, Chairman Grassley, in your home state of Iowa, the PBGC is the trustee of 28 plans and pays \$19 million a year to 5,800 participants. Chairman Bond, in your home state of Missouri, we are the trustee of 36 plans and pay \$6 million a year to 2,300 participants.

Today, the PBGC is in the best shape it has ever been. We ended Fiscal Year 1999 with a \$7 billion accounting surplus. After 21 consecutive years of deficits, this is the fourth year in a row that we ended in the black.

This is a remarkable turnaround, especially considering that as recently as the early 1990s, both *The New York Times* and *The Wall Street Journal* headlined the PBGC as the next savings and loan crisis.

Just five years ago:

- The PBGC was on both the GAO and the OMB High Risk Lists,
- Our books were not auditable, and
- The PBGC had a \$3 billion deficit.

Today:

- The PBGC is off the GAO and OMB High Risk Lists,
- The PBGC's financial statements are receiving unqualified opinions from PriceWaterhouse Coopers, and
- The PBGC has turned a \$3 billion deficit into a \$7 billion surplus.

The PBGC has taken advantage of the longest period of uninterrupted economic growth in our nation's history to build a \$7 billion cushion to protect the insurance program in the event of an economic downturn. This cushion is important because the PBGC remains exposed to a variety of long-term risks,

most of which are beyond our control. (Supplement A provides some additional materials explaining how we turned our deficit into a surplus.)

PBGC CUSTOMER SERVICE

The first issue that the Committees asked me to address this morning is PBGC's customer service, including the timeliness and accuracy of our benefit determinations. Mr. Chairmen, I want to assure you that, from my first day at the PBGC, I have tried to create a customer-service-oriented culture.

Good constituent service has been an ideal against which I have measured my own performance during my entire 24-year career in government. From my very first day of my first government job, I have always understood the importance of providing the highest level of personal service with the quickest turnaround time possible.

At the PBGC, I try to follow the example of John Chambers, the CEO of Cisco Systems, who says that a CEO should spend 50 percent of his time with customers. So, after the PBGC trustees a plan, I often meet personally with plan participants to explain PBGC's insurance program, to assure participants that their benefits are safe, and to address any concerns they may have.

During the three years that I've been at the PBGC:

- I attended almost 100 participant meetings -- virtually every meeting held since I became Executive Director;
- I personally met with more than 8,000 participants;
- Prior to each of these participant meetings, I personally reviewed the details of each plan to determine whether there were any special benefit concerns that should be addressed; and
- At these meetings, I received many comments from participants and, as a result, we made a number of changes in the way we respond to their needs.

To measure how well we have been doing in meeting our customers' expectations, we instituted annual surveys of participants. These surveys are reported in our annual reports and the survey methodology is reviewed by PriceWaterhouseCoopers. According to the most recently completed survey, 70 percent of participants rated the PBGC's service as "above average" or "outstanding."

Overview of Benefit Determination Process

One of the customer service issues that the Committees asked me to address is the timeliness and accuracy of our benefit determination process. When we take over a plan, the plan often includes participants who are already receiving benefits. Our highest priority has always been to ensure that these participants continue to receive their benefit payments without interruption. As other participants become eligible for benefits, they also begin to get their benefits without delay. In other words, no participant ever has to wait to receive benefits.

At the time the PBGC takes over a plan, however, the benefit amounts these participants receive are considered to be "estimated" until we are able to verify all the plan records and participant data needed to calculate final benefits, as necessary under the law. In most cases there is little or no difference between estimated and final benefits. Once the PBGC completes the benefit calculation, a final benefit

determination letter is issued to each participant. (Supplement B provides a full explanation of our benefit determination process.)

Final Benefit Determinations

In the 1980s and the early 1990s, the Corporation's focus was on its growing deficit and on the sudden influx of bankruptcy cases in major industries such as airlines. As a result, the PBGC did not promptly issue final benefit determinations. Because of these processing delays, retirees often received estimated benefits for many years, and participants not old enough to retire received no statements of estimated benefits. I have made the speedier issuance of final benefit determinations to participants a key element of our improved customer service.

Last year, at the request of the Committees, the PBGC's Inspector General reviewed the timeliness of our benefit determination process. The IG found that the PBGC generally had taken an average of 5.7 years to give participants their final benefit determinations, with half having to wait over seven years. While we agree with the IG that these processing times were too long, the IG's report does not reflect the improvements we have made and the current status of the PBGC's operations.

To improve the benefit determination process, the PBGC reorganized its Insurance Operations Department, developed new computer systems, and made numerous policy and procedural changes. These efforts have produced positive results. As of today:

- We increased the number of final benefit determinations issued from 20,000 in 1993 to more than 60,000 each year since 1995;
- We reduced our inventory of unissued benefit determinations from a high of 300,000 in 1994 to about 165,000 today;
- We completed benefit determinations for virtually all plans trustee prior to Fiscal Year 1996; and
- For plans that we trustee today, we expect to issue final benefit determinations within three years. Mr. Chairman, three-year processing is the best we can do under the current statutory requirements of ERISA.

Other customer service initiatives

In addition to faster benefit determinations, we have also taken numerous other steps to better meet the needs of our customers. (Supplement C provides examples of these customer service initiatives and the results of surveys that show how we have been doing in meeting our customers' expectations.)

CONTRACT PLANNING AND ADMINISTRATION

The second issue that the Committees asked me to address was the PBGC's contract planning and administration. The GAO recently reviewed our contract management. Although the GAO's draft report found that we complied with all legal requirements, it did identify a few areas where the PBGC can further improve its operations through better contracting procedures and monitoring.

We have accepted the GAO's recommendations and have already taken steps to begin implementing them. (Supplement D provides an explanation of the PBGC's contracting process.)

One of the issues that the GAO looked at was the way we use sole source contracts for PBGC field offices. In the early 1980s, the PBGC was faced with a significant influx of large underfunded pension plans. We responded to these growing workloads by establishing field benefit offices and contracting for benefit administration services.

As I have discussed with you and your office, Chairman Grassley, the Waterloo, Iowa field benefit office is a good example of this process. The Waterloo field office was set up in 1985 to handle three pension plans for about 5,700 employees of Rath Packing, a meat packing company in Waterloo. The manager and several other employees of the Waterloo field office had worked in Rath's benefit payments department, and they were uniquely qualified to handle the provisions of the Rath plans.

As the PBGC trusted more plans, we took advantage of the specialized skills that the Waterloo field office gained in processing the Rath plans. Today, the Waterloo field office employs 20 individuals who do the benefit administration for 850 plans - over a quarter of the PBGC's almost 3,000 plans. The Waterloo field office provides benefits, or will provide benefits in the future, to about 135,000 participants.

Initially, as with the Waterloo field benefit office, the PBGC often entered into sole source contracts with pension administrators from the insolvent companies whose plans we trusted. The administrators' familiarity with plan provisions and personnel records was critical for a smooth transition for participants.

Over time, the number of plans assigned to these field offices increased. Therefore, in 1997, for the first time we competitively bid the four largest field benefit offices. By 2001, all these offices will have been competitively procured. We have found that contracting for services with these field benefit offices continues to be a successful way to meet the demands of unpredictable workloads.

COMPUTER SECURITY

The third issue that the Committees raised is the adequacy of the PBGC's computer security. Mr. Chairmen, I want to address the Committees' concerns and assure you that we have enhanced our computer security to make sure that our electronic participant records and benefit information files are secure.

At the request of the Committees, we developed a comprehensive plan to upgrade the PBGC's computer security. We have been executing our plan and reporting monthly to the Committees on our progress, and we will complete work on the plan by September 30, 2000, as promised.

In the past, the biggest threat to participants' records was a fire or other natural disaster. Virtually all of our participant data base was on paper -- and we had no backup records. Today, with a computerized participant data base, we face a different problem -- protecting these records from hackers, viruses and the other dangers of the electronic age.

We have already taken a number of steps to enhance our computer security:

- In 1997, the PBGC tested a primary computer vulnerability -- the penetration of computer systems from the Internet - and we strengthened the firewall to prevent unauthorized access to data from the Internet; and
- In 1999, our Inspector General conducted a penetration test of our computer systems and

recommended other areas for improvement.

In recent months, as part of our corrective action plan:

- We have tightened standards for passwords;
- We have set up mechanisms to identify, and warn us against, attacks against our firewall or Internet servers;
- We strengthened information security policies and procedures; and
- We now have strong physical security for our information resources.

We are determined to protect our data, particularly our participant records. We will insist that our information security practices embody the best practices of government and industry, including a process for continuous evaluation and improvement.

CONCLUSION

In closing, I want to thank you again, Mr. Chairmen, for giving me the opportunity to appear before you this morning. **I appreciate the Committees' interest in the PBGC's operations, and I look forward to working with you and the members of the Committees.**