

Testimony of
THE HONORABLE W. THOMAS REEDER
DIRECTOR
PENSION BENEFIT GUARANTY CORPORATION

before the
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,
AND EMERGENCY MANAGEMENT

Hearing

**“Independent Leasing Authorities: Increasing Oversight and Reducing Costs of Space
Leased by Federal Agencies”**

July 6, 2016

Mr. Chairman, Ranking Member Carson, and Members of the Subcommittee.

Good morning. I am pleased to appear before you today to discuss the Pension Benefit Guaranty Corporation (PBGC) and its engagement of the General Services Administration (GSA) to secure a new headquarters lease for PBGC that reduces our space costs and consolidates our headquarters operations into a single location.

PROTECTING PENSIONS

Before I talk about the agency’s leasing efforts, I would like to share some information with you about PBGC’s work to fulfill its statutory mission. The agency was established over 40 years ago by the Employee Retirement Income Security Act of 1974 to protect the retirement incomes of workers and retirees covered by private sector defined benefit pension plans. PBGC assumes responsibility for underfunded pension plans when sponsors can no longer afford them. PBGC receives no taxpayer dollars. Its operations are financed by insurance premiums, investment income, and assets and recoveries from failed plans.

PBGC protects the pension benefits of more than 40 million Americans. The agency runs two separately operated, separately financed pension insurance programs: one covering single-employer pension plans and another covering multiemployer pension plans. Under the single-employer program, PBGC protects about 30 million workers and retirees in over 20,000 pension plans. Under the multiemployer program, PBGC protects over 10 million workers and retirees in about 1,400 pension plans.

We work with financially troubled employers that sponsor underfunded pension plans to help them preserve promised benefits and avoid plan failure. Participants are best served when their pension plans remain ongoing and they receive their full, promised benefits rather than

potentially reduced amounts under PBGC's legal limits. Nonetheless, for workers and retirees in plans that do fail, the agency's guaranty is critical to retirement security.

Today PBGC is responsible for the current and future pensions of about 1.5 million people in 4,800 failed single-employer and multiemployer pension plans.

As of September 30, 2015, the single-employer and multiemployer programs reported balance sheet deficits of \$24 billion and \$52 billion, respectively. Last month PBGC issued two reports on the prospects of PBGC's insurance programs – the FY 2015 Projections Report (which is required by law to provide an actuarial evaluation of the future status of the insurance funds) and the Multiemployer Pension Reform Act Report (which is required by law to describe the premium amounts PBGC needs to sustain the multiemployer program). While the financial position of the agency's single-employer program is likely (but not certain) to improve, the multiemployer program, without reforms, is likely to run out of funds by 2025.

Since becoming PBGC's Director, I've had the opportunity to work alongside the talented and dedicated staff of the agency. Together, we are working to provide retirees with timely payments and to encourage employers to preserve and maintain defined benefit pension plans.

PBGC's staff come from diverse fields, including law, actuarial science, financial analysis, auditing, and information technology. The results of the highly collaborative work environment and devotion to mission do not go unnoticed by PBGC's customers. In 2015, retirees rated PBGC's customer service 91 (on a 100 point scale) in the American Customer Satisfaction Index survey. This score surpassed the best government agencies as well as the best companies in the private retail sector.

PBGC LEASING

PBGC has independent leasing authority under section 4002(b)(5) of ERISA and leased office space without the assistance of GSA for many years. It has generally been successful in its leasing efforts: GAO found that 60% of the PBGC leases it reviewed (including its main headquarters lease) contained rates below those of comparable GSA leases. The Corporation began leasing its current headquarters space at 1200 K Street, NW in 1992 (389,334 sq. ft.). As the demand for PBGC's services has grown, its workforce (federal and contractor) has also expanded. In 2004, the agency began leasing additional headquarters space across the street at 1275 K Street, NW (69,991 sq. ft.), and in 2014, the Corporation acquired office space at 1225 "Eye" Street, NW (11,922 sq. ft.). PBGC's three headquarters leases expire in December 2018. The agency is currently working with GSA to obtain a single, consolidated headquarters space for the agency.

Since 2003, PBGC also has leased space (28,128 sq. ft.) in Kingstowne, Virginia to take advantage of lower rates for certain back office operations while maintaining proximity for headquarters staff. The Kingstowne site houses our contractor-staffed Customer Call Center, which handles over 600,000 participant inquiries per year, as well as our Document Management Center, which processes millions of plan and participant documents and records. The Kingstowne location also serves as the agency's continuity of operations site.

In addition to its headquarters and Kingstowne operations, the Corporation leases field benefit administration (“FBA”) offices. The Corporation started using FBA offices in the late 1980s. These FBA offices were generally located in areas where the Corporation had taken over large pension plans with high concentrations of participants in the immediate area. FBA offices enabled the agency to retain incumbent pension plan administration staff with invaluable institutional knowledge and community relationships, as well as accommodate walk-in traffic, in the days before electronic filing was available. At first, the agency did not lease FBA locations, but rather, contracted directly with service providers who provided space (paid for as overhead or a line item on the contract). In the mid-1990’s, PBGC changed its approach and began directly leasing all FBA space and contracting separately for plan administration services. PBGC made this change to enhance its flexibility to expand or to contract FBA offices -- for instance, closing some offices and assigning work to other more cost-effective sites.

In 1994, the Corporation had 17 FBAs. At about that time, PBGC started reviewing whether to consolidate its FBA offices due to cost and other considerations. Since then, the Corporation has slowly reduced the number of its FBA offices as the number of large trustee plans has gone down and advances in technology have enabled the Corporation to handle more pension administration work electronically and remotely. By 2000, the Corporation leased 11 FBA sites. In the last five years, the Corporation has taken additional steps to reduce the cost of its real estate portfolio. Today, the Corporation leases space for 5 FBAs (Coraopolis, PA; Miami, FL; Richmond Heights, OH; Sarasota, FL; Wilmington, DE) with a combined footprint of only 65,328 square feet (each is less than 15,000 square feet). We continue to look for opportunities to improve the efficiency of our field operations and further reduce our footprint.

PBGC DECISION TO WORK WITH GSA

With PBGC’s headquarters lease expiring in December 2018, the agency began planning for a replacement lease in 2014. One of the first considerations for the agency was whether to continue to exercise its independent leasing authority or instead become a client of GSA. While it is still a small agency, PBGC has grown over the past decade as the need for its services and thus its workload has grown. PBGC’s employees have a very full plate, providing retirement security, protecting pensions, and implementing best practices across its infrastructure, such as enterprise risk management. Cost was also a factor. In light of recent GAO decisions, we had questions about our authority to incrementally fund a long-term lease. After consulting with the Office of Legal Counsel (OLC), we determined that, although we have no-year funds available for a long-term lease, the Recording Statute (31 U.S.C. 1501) prevents us from incrementally funding it without express authority, which GSA has and PBGC does not. Therefore, with respect to our headquarters lease, it was an obvious decision for us to go to the agency with the expertise, bench strength and authority to obtain the best value for PBGC’s premium payers and other stakeholders.

PBGC’s EXPERIENCE WITH GSA

PBGC reached out to GSA in early 2014 to request assistance in analyzing the risks and benefits of procuring a new headquarters lease through GSA versus using the agency’s own leasing authority. In April 2015, PBGC began working on its Program of Requirements (“POR”) while

the agency reviewed several leasing strategies before deciding to have GSA procure its consolidated headquarters space. PBGC officially began working with GSA on its headquarters lease procurement in October 2015. At the initial kickoff meeting, GSA and PBGC discussed the roles and responsibilities of agency personnel in the leasing process. In November 2015, PBGC submitted its POR to GSA, allowing GSA to populate PBGC's Housing Plan as part of the prospectus submission. In March 2016, PBGC met with GSA and CBRE (the broker assigned to PBGC's lease procurement) to go over proposed timelines and additional information. GSA submitted the prospectus lease for PBGC's consolidated headquarters space to the Committee on June 9, 2016.

Although it is still early in the process, I believe we have established a sound working relationship with GSA. Since we are new to the GSA leasing function, it has been important for the two agencies to agree on roles and responsibilities. GSA has worked collaboratively with us to refine our requirements and respected our role as a partner. They have been helpful in guiding us through the GSA leasing process. In turn, we bring to the table the lessons we learned from successful leasing; most notably, the importance of ensuring that procurement experts, legal experts and the real estate broker work as an integrated team. The PBGC and GSA teams have been working well together and communications are good. PBGC has weekly meetings with GSA to discuss the lease project. We are moving forward in accordance with the steps GSA and PBGC have agreed to and are making good progress.

An early lesson we have learned from working with GSA's process thus far is the importance of taking a disciplined approach to space savings that can be achieved through consolidation. Consolidating our headquarters into one building will also improve effective communication, and collaboration in serving our customers and stakeholders.

CONCLUSION

PBGC is pleased to be partnering with GSA in seeking a consolidated headquarters location. Having the prospectus in the Committee's hands is an important step. We look forward to working with the Committee and GSA to answer any questions you may have as we work toward our goal of obtaining a lease that will provide the best value for our stakeholders.