Restoring the Deposit Insurance Funds

Pursuant to the Dodd-Frank Act, the restoration period for the FDIC's DIF reserve ratio to reach 1.35 percent was extended to 2020. (Prior to the Act, the DIF reserve ratio was required to reach the minimum target of 1.15 percent by the end of 2016.) On March 25, 2016, the FDIC published a final rule to implement this requirement. The Act also placed the responsibility for the cost of increasing the reserve ratio to 1.35 percent on large banks (generally, those with $10 billion or more in assets). The final rule would lower overall regular assessment rates for all banks but also impose a 4.5 basis point surcharge on the assessment base (with certain adjustments) of large banks. The reduction in regular rates and large bank surcharges would begin the quarter after the DIF reserve ratio reaches 1.15 percent. The reserve ratio surpassed 1.15 percent on June 30, 2016, with lower regular assessment rates and large bank surcharges commencing in the July-September quarter. Surcharges on large banks will continue until the reserve ratio reaches 1.35 percent. The Budget estimates reflect these assessment rates.

Since 2009, NCUA has successfully restored the reserve ratio of the SIF to the normal operating level. Additionally, NCUA continues to seek compensation from the parties that created and sold troubled assets to the failed corporate credit unions. As of September 30, 2016, NCUA's gross recoveries from securities underwriters totaled more than $1.9 billion, helping to minimize losses and future assessments on federally-insured credit unions.

Budget Outlook

The Budget estimates DIF net outlays of -$77.4 billion over the current 10-year budget window (2018-2027). This $77.4 billion in net inflows to the DIF is $13.8 billion higher than estimated over the previous 10-year window (2016-2027) for the 2017 Mid-Session Review (MSR). The latest public data on the banking industry led to a reduction in projections of failed assets, reducing receivership proceeds, resolution outlays, and premiums necessary to reach the minimum Dodd-Frank Act DIF reserve ratio of 1.35 percent relative to MSR. The Budget estimates reflects a DIF reserve ratio of at least 1.35 percent in 2020. Although the FDIC has authority to borrow up to $100 billion from Treasury to maintain sufficient DIF balances, the Budget does not anticipate FDIC utilizing its borrowing authority because the DIF is projected to maintain positive operating cash flows over the entire 10-year budget horizon.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC operates two legally distinct insurance programs: single-employer plans and multiemployer plans.

Single-Employer Program. Under the single-employer program, PBGC pays benefits, up to a guaranteed level, when a company's plan closes without enough assets to pay future benefits. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities, and that the healthy firms sponsoring those plans become distressed.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to strengthen plan funding or otherwise protect the insurance program from avoidable losses. However, PBGC's authority to manage risks to the insurance program is limited. Most private insurers can diversify or reinsure their catastrophic risks as well as flexibly price these risks. Unlike private insurers, federal law does not allow PBGC to deny insurance coverage to a defined-benefit plan or adjust premiums according to risk. Both types of PBGC premiums—the flat rate (a per person charge paid by all plans) and the variable rate (paid by some underfunded plans) are set in statute.

Claims against PBGC's insurance programs are highly variable. One large pension plan termination may result in a larger claim against PBGC than the termination of many smaller plans. The future financial health of the PBGC will continue to depend largely on the termination of a limited number of very large plans.

Single employer plans generally provide benefits to the employees of one employer. When an underfunded single employer plan terminates, usually through the bankruptcy process, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. The amount of benefit paid is determined after taking into account (a) the benefit that a beneficiary had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, and (c) the legal maximum benefit level set in statute. In 2017, the maximum annual payment guaranteed under the single-employer program was $64,432 for a retiree aged 65. This limit is indexed for inflation.

Since 2000, PBGC's single-employer program has incurred substantial losses from underfunded plan terminations. Nine of the ten largest plan termination losses were concentrated between 2001 and 2009. The other occurred in the early 1990s.

Multiemployer Plans. Multiemployer plans are collectively bargained pension plans maintained by one or more labor unions and more than one unrelated employer, usually within the same or related industries. PBGC's role in the multiemployer program is more like that of a re-insurer; if a company sponsoring a multiemployer plan fails, its liabilities are assumed by the other employers in the collective bargaining agreement, not by PBGC, although employers can withdraw from a plan for an exit fee. PBGC becomes responsible for insurance coverage when the plan runs out of money to pay benefits at the

statutorily guaranteed level, which usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance in the form of loans sufficient to pay guaranteed benefits and administrative expenses. Since multiemployer plans do not receive PBGC assistance until their assets are fully depleted, financial assistance is almost never repaid. Benefits under the multiemployer program are calculated based on the benefit that a participant would have received under the insolvent plan, subject to the legal multiemployer maximum set in statute. The maximum guaranteed amount depends on the participant's years of service and the rate at which benefits are accrued. For example, for a participant with 30 years of service, PBGC guarantees 100 percent of the pension benefit up to a yearly amount of $3,960. If the pension exceeds that amount, PBGC guarantees 75 percent of the rest of the pension benefit up to a total maximum guarantee of $12,870 per year. This limit has been in place since 2011 and is not adjusted for inflation or cost-of-living increases.

In recent years, many multiemployer pension plans have become severely underfunded as a result of unfavorable investment outcomes, employers withdrawing from plans, and demographic challenges. In 2001, only 15 plans covering about 80,000 participants were under 40 percent funded using estimated market rates. By 2011, this had grown to almost 200 plans covering almost 1.5 million participants. While many plans have benefited from an improving economy and will recover, a small number of plans are severely underfunded and, absent any changes, projected to become insolvent within ten years.

As of November 15, 2016, the single-employer and multiemployer programs reported deficits of $20.6 billion and $58.8 billion, respectively. While both programs have significant deficits, the challenges facing the multiemployer program are more immediate. In its 2016 Annual Report, PBGC reported that it had just $2 billion in accumulated assets from premium payments made by multiemployer plans, which it projected would be depleted by 2025. If the program runs out of cash, the only funds available to support benefits would be the premiums that continue to be paid by remaining plans; this could result in benefits being cut much more deeply, to a small fraction of current guarantee levels.

To address the problems facing the multiemployer program and the millions of Americans who rely on those plans for their retirement security, the Congress passed The Multiemployer Pension Reform Act, which was included in the Consolidated and Further Continuing Appropriations Act signed on December 16, 2014. The law includes significant reforms to the multiemployer pension plan system, including provisions that allow trustees of multiemployer plans facing insolvency to apply to the Department of Treasury to reduce benefits by temporarily or permanently suspending benefits. The law does not allow suspensions for individuals over age 80 or for those receiving a disability retirement benefit. A participant or beneficiary's monthly benefit cannot be reduced below 110 percent of the PBGC guarantee. It also increases PBGC premiums from the $12 per person to $26 beginning in 2015 and indexes premiums to inflation thereafter. While the legislation is an important first step, it will not be enough to improve PBGC's solvency for more than a very short period of time. PBGC projects that it is likely to become insolvent by 2025, extending its projected insolvency date by three years compared to the 2013 projection.

In addition, Congress enacted premium increases in the single-employer program as part of the Bipartisan Budget Act of 2015 (BBA). By increasing both the flat-rate and variable-rate premiums, the Act will raise as estimated $4 billion over the 10-year budget window. This additional revenue will improve the financial outlook for the single-employer program, which was already projected to see a large reduction in its deficit over the next 10 years.

Premiums. Both programs are underfunded, with combined liabilities exceeding assets by $79 billion at the end of 2016. While the single-employer program's financial position is projected to improve over the next 10 years, in part because Congress has raised premiums in that program several times in recent years, the multiemployer program is projected to run out of funds in 2025. Particularly in the multiemployer program, premium rates remain much lower than what a private financial institution would charge for insuring the same risk and well below what is needed to ensure PBGC's solvency.

To address these concerns, the 2018 Budget proposes changes to PBGC premiums that would raise $21 billion. The Budget proposes to create a new variable rate premium (VRP) and an exit premium in the multiemployer program, estimated to raise an additional $16 billion in premium revenue over the budget window. A multiemployer VRP would require plans to pay additional premiums based on their level of underfunding—as is done in the single-employer program. An exit premium assessed on employers that withdraw from a plan would compensate PBGC for the additional risk imposed on it when healthy employers exit. This level of additional multiemployer premium revenue would significantly reduce the risk of the multiemployer program becoming insolvent within 10 years.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security (DHS). Flood insurance is available to homeowners and businesses in communities that have adopted and enforce appropriate floodplain management measures. Coverage is limited to buildings and their contents. At the end of fiscal year 2016, the program had over 5.1 million policies worth $1.25 trillion in force in 22,216 communities.

The NFIP was established in 1968 to make flood insurance coverage widely available, to combine a program of