Corporate bankruptcies exhaust US pension guaranty fund

Patrick Martin
29 January 2003

The US Pension Benefit Guaranty Corporation has exhausted its entire $8 billion surplus as a result of a series of big corporate bankruptcies last year, the agency reported last week. The PBGC provides partial protection for private pensions paid to 44 million workers.

Three big steelmakers accounted for most of the drain on the PBGC's resources: Bethlehem Steel, whose pension fund required an infusion of $3.7 billion; National Steel, which was $1.1 billion in deficit; and LTV Steel, whose pension bailout (the second in 16 years) cost $1.6 billion.

All three pension plans were bankrupted by the virtual collapse of the US steel industry. Bethlehem, for instance, has 67,000 retirees receiving benefits, 15,000 laid-off workers eligible to receive pensions in the future, and only 13,000 current workers producing profits for the company.

Even bigger pension defaults could take place this year, with bankruptcy filings by US Airways, United Airlines and Kmart, among other large corporations. US Airways alone is liable for $3.1 billion in pension contributions over the next seven years, and has sought permission from the federal government to stretch out the payment period to 30 years.

Until 2002 the Pension Benefit Guaranty Corporation had never handled a billion-dollar bailout. Its largest previous case was the $841 million takeover of the Pan Am pension fund in 1991, when the airline was liquidated. The PBGC exhausted its surplus in 1992, at the end of the last recession, but rebuilt its reserves during the stock market boom of the late 1990s.

The earlier crisis is dwarfed by present conditions. In 1993, the gap between what companies were obligated to pay in pension benefits and the resources on hand reached a high of $109 billion. At the end of 2002, the pension funding gap was estimated at over $300 billion. Of this huge sum, $240 billion was accounted for by traditional "defined benefit" plans, such as those at General Motors, Ford and other big manufacturing companies—a sharp reversal from 2000, when such plans showed a surplus of $263 billion.

The PBGC plays a role in insuring private pensions which is analogous to that of the Federal Deposit Insurance Corporation in insuring bank deposits. Businesses pay a flat-rate premium of $19 a year, unchanged since 1991, for each covered employee or pensioner. The PBGC, created in 1974 under the Employee Retirement Income Security Act (ERISA), takes over insolvent pension funds and maintains payments, but at strictly limited rates—up to a maximum of $3,600 a month for those over 65 at the time of default.

Two years ago, the PBGC had $22 billion in assets and was responsible for the pensions of 624,000 current and future retirees. Now it has zero net assets, more pensioners dependent on it, and an income, from the $19 fee, of barely $800 million a year. No federal tax money goes to support the agency.

The Bush White House has proposed no action for dealing with the PBGC's financial crisis, raising the possibility that the agency could itself become insolvent, as the Federal Savings and Loan Insurance Corporation did during the savings and loan crisis of the first Bush administration. Administration officials are opposed to raising the premiums charged to corporations, claiming that companies would then have an incentive to stop offering pensions at all.

The whole thrust of administration policy, however, is to plunder workers' retirement benefits in the interests of corporate profits. This is the character of Bush's ongoing plans to privatize the Social Security

© World Socialist Web Site

system, funneling trillions into the stock exchange, and of measures recently announced by the Treasury, which will undermine company-paid pension plans.

In December the Treasury proposed new rules to allow corporate employers to convert traditional defined-benefit pension plans into "cash balance" plans that cut the benefits paid to longer-serving workers. Hundreds of companies undertook such conversions in 1990s, cutting future benefits by billions of dollars, until a lawsuit by aggrieved IBM employees brought the issue to public attention, and the Clinton administration imposed a moratorium in 1999 on such transfers.

The Bush administration action would lift the moratorium after a 90-day period for public comment, meaning that corporations will be able to impose such changes from March 10 unless the Republican-controlled Congress overrules the decision.

Traditional defined-benefit plans calculate pensions based on average pay in the last few years of employment, essentially paying a premium for longevity. "Cash balance" plans average out the pension based on a fixed percentage of pay for each year worked. The calculations involve complex actuarial and interest rate assumptions, but the result is that a short-term worker would receive higher benefits under a cash balance plan, while a longer-term worker will suffer—losing, in the case of the IBM retirees, anywhere from 20 percent to 50 percent of anticipated future benefits.

One third of the Fortune 500 now use cash balance pension plans, compared to only one in 1985. Most companies shifted to the new plan as an expedient to relieve immediate financial pressures, since they could limit benefits for employees who were about to retire, while the increased benefits went to workers still early in their working lives. Moreover, since most pension plans do not vest until five years' service, young workers who change jobs frequently would forfeit their accrued pension benefits, freeing the employer of any financial obligation.

More than 800 claims of age discrimination had been filed against cash balance conversion plans by the time the Clinton administration imposed its moratorium, in September 1999. Under the new Bush regulations, employers will be immune from such discrimination suits if they meet certain technical criteria, even if the result is a substantial reduction in benefits for older workers.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site