US: federal pension insurance program edges toward bankruptcy

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In what the *Wall Street Journal* describes as a "slow motion train wreck," the Pension Benefit Guaranty Corporation (PBGC) posted results last month of a $23.3 billion deficit, up by $12.1 billion in just one year. The PBGC is the government agency set up in 1974 to take over payment of workers' pensions when their corporate sponsors abandon them.

Over the last three years, the PBGC has suffered losses amounting to a whopping $30 billion. The *Wall Street Journal* estimates that in 16 years the insurance program will run out of money to pay benefits.

Because of the large numbers of bankruptcies in the last three years, the number of people for whom the PBGC was responsible for benefits payments reached 1.1 million compared to 924,000 last year. The total payouts to pensioners exceeded $3 billion, dwarfing the $1.5 billion in premiums collected from companies insured under the program. The number of underfunded pension terminations rose this year to 192 from only 155 at this time last year.

When US Airways, in bankruptcy for the second time, stopped contributions to its pension plans, it owed its workers $2.3 billion, over which the PBGC assumed the bulk of responsibility. United Airlines, also in bankruptcy, has applied to the court to suspend further pension payments. The company is underfunded so far by $8.3 billion, of which $6.4 billion would be taken over by the PBGC if the pensions are terminated. The employees will be left holding the bag for the rest.

When corporate pensions go bust, even if the government insurance kicks in, workers often receive significantly reduced benefits. Pension increases negotiated over the last five years before the plan's termination are sharply reduced. Early retirement "sweeteners" are not included at all.

Higher-paid workers such as airline pilots are subject to maximum payments that are often well below the amounts they were due. The current maximum is $44,386 per year for those who retire at age 65, with reductions for earlier retirement.

In addition to outright bankruptcies, the PBGC deficit reflects a corporate trend of refusing to set aside money for retirement benefits that they have promised. When the stock markets were booming, the return on assets invested in pensions exceeded the returns needed to meet expected future payouts, thus allowing corporations to book the difference as income.

With the stock market declines and low-interest rates prevalent over recent years, pension investments have soured, leaving funds far short of the amount required to pay future pension obligations and many corporations showing a loss on their pension accounts. To make up the difference, companies are either reducing their pension benefits or walking away from them altogether. They leave them without funding, and simply turn responsibility over to the PBGC.

The 1974 Employee Retirement Income Security Act (ERISA), under which the PBGC was created, requires that companies whose pension obligations are less than 90-percent funded make "catch-up" payments. However, "reform" legislation passed by Congress last fall exempted airlines and manufacturers from making the required payments for up to 30 years. These industries are among the most behind in funding today, and they have in the past saddled the PGBC with the largest deficits when they terminated their plans.

Companies operating under the protection of bankruptcy courts are also often exempt from contributions to pension funds that are otherwise legally required.

Bethlehem Steel, for instance, made no cash contributions to its pension plans in the three years

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before it went belly-up, leaving a $4.3 billion shortfall at the time the PBCG stepped in. Similarly, US Airways omitted four years of contributions to the pilots' pension fund, leaving it $2.5 billion short when the bankruptcy judge sanctioned the termination of the plan.

Companies like United Air claim that they have no hope of emerging from bankruptcy unless they are relieved of pension obligations to their 119,000 workers and retirees. United currently owes more than $800 million in overdue payments.

The off-loading of pension liabilities onto the federal insurance program has just become another tool for company cost-cutting at the expense of the workers. Bradley Belt, executive director of the PBGC, testified before a congressional hearing in October, "I am particularly concerned with the temptation, and indeed, growing tendency, to use the pension insurance fund as a means to obtain an interest-free and risk-free loan to enable companies to restructure. Unfortunately, the current calculation appears to be that shifting pension liabilities onto other premium payers or potentially taxpayers is the path of least resistance rather than a last resort."

The PBGC has only $39.0 billion in assets to cover $62.3 billion in liabilities as of September 30, 2004. In addition, the financial statement lists another $96 billion in "reasonably possible" liabilities as an "estimate of the unfunded vested benefits in pension plans sponsored by companies at greater risk of default."

Belt estimated the total level of underfunding in the private pension system at more than $350 billion last year. It has no doubt gone up considerably since then.

Because pensions are paid out over several decades, Belt assures that "for a number of years" the PBGC has enough funds to pay benefits to those already in the system. He testified, however, that "the longer-term solvency" is "at risk," and warned of the possibility of a taxpayer bailout similar to that of the savings-and-loan crisis of the 1980s.

He also pointed out that unlike the Federal Savings and Loan Insurance Corporation (FSLIC), the PBGC is not backed by the full faith and credit of the federal government.

It is quite possible, then, that if the PBGC becomes insolvent (which it technically is already), both current and future retirees will be left without pensions altogether, except for Social Security—also under attack by the Bush administration.

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