“This is a human disaster”

Bankrupt US parts maker Delphi dumps pension obligations

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About $6.2 billion in pension liabilities of bankrupt auto parts maker Delphi will be assumed by the Pension Benefit Guaranty Corporation (PBGC), an independent US government agency tasked with protecting private pension plans. Delphi is the largest parts supplier for General Motors, which emerged from bankruptcy on June 20.

The move, announced Wednesday, is the latest in the Obama administration’s restructuring of the auto industry**.** It clears the path for “the new GM” to absorb some profitable parts of Delphi, while shifting the pension obligations owed to roughly 70,000 retirees onto the PBGC. Hourly retirees will likely see a significant reduction in their pension checks. Salaried retirees confront massive reductions.

Among 47,000 Delphi hourly retirees, the typical pension payment is about $3,000 a month, according to one estimate. For about 20,000 salaried retirees, it is between $3,500 and $4,000. A 55-year old retiree can receive at most $2,025 from the PBGC, according to the *Wall Street Journal*.

Over the past decade, Delphi has encouraged its employees to take early retirement. Now, many of these retired workers will lose between a third and a half of their monthly pension payments.

GM may step in to fill part of the gap between retired hourly workers’ pensions before and after the PBGC takeover, according to the *Detroit Free Press*. However, this does not appear to be guaranteed, and it does not extend to salaried workers.

“This is a human disaster,” said Den Black, a retired engineer and a member of the Delphi Salaried Retiree Association. Among salaried employees, “[w]e've got foreclosures, we've got mental breakdowns,” he said.

Black’s group filed a lawsuit in federal court last week in a bid to prevent Delphi from dumping its pension obligations. Similar lawsuits against GM and Chrysler’s bankruptcy reorganizations have been summarily dismissed by federal judges. Delphi retirees have launched a large-scale letter writing campaign to the bankruptcy court in Manhattan.

Delphi filed for bankruptcy in New York City in search of a more hospitable venue, according to *Reuters*. “Like General Motors and Chrysler, it filed its case in New York; some other big businesses go to Delaware for their bankruptcy filings,” the news service writes. Bankruptcy proceedings in Michigan or Ohio would likely fill up with angry retirees.

The pension liabilities the PBGC is assuming from Delphi are the second largest rescue operation in its history. To date, its largest payouts are to the retirees of major airlines and steel corporations. The PBGC was founded in 1974 by federal law to provide insurance for private pension plans and to take over the pension plans of functionally-insolvent companies. It is not funded through tax revenue, but through its own investment strategy (largely US bonds) and insurance premiums paid to it by private plans.

The PBGC originally resisted the plan to push Delphi’s pension debts onto its books, demanding that still-profitable parts of the parts makers’ overseas operations contribute to any pension takeover, and that GM honor an earlier commitment to make payments to United Auto Workers (UAW) retirees’ accounts in the event of a Delphi bankruptcy. However, as the *New York Times* explains, the White House forced matters. “[T]he PBGC appears to have backed down,” it notes, “because its hard line interfered with the Obama administration’s goal of revamping the auto industry quickly.”

With corporate bankruptcies skyrocketing—bankruptcies for 2009 have already doubled from the total for 2008—the Delphi bankruptcy raises the specter that the PBGC might itself be threatened with insolvency. In recent months, PBGC has taken over the pension plans of Circuit City and Lehman Brothers, and it is anticipated that it will face a rush of auto parts makers in the wake of Delphi. The PBGC is already running a deficit of $33.5 billion, a threefold increase in less than half a year. While it is claimed that PBGC has enough cash on hand to make payments for years to come, "[u]ltimately, taxpayers could be forced to step in," the *Wall Street Journal* notes.

Delphi's decade-long "independence" from its parent company, GM, is a chronicle of the attack on the jobs and conditions of auto workers. Delphi was spun-off from GM, becoming a publicly-traded corporation in 1999, but it remained dependent upon sales to the largest US automaker. The real purpose of its creation was to prepare for a new round of layoffs at both GM and Delphi, and to shift pension obligations from the former to the latter. Indeed, the nominally independent parts makers, including American Axle, have served Wall Street as the first target in the lowering of wages and benefits for the whole industry.

In 2004, Delphi's corporate executives became the subject of a Securities and Exchange Commission investigation into dubious accounting practices, and in 2005 it entered Chapter 11 bankruptcy. It was revealed that Delphi was insolvent and could no longer pay its workforce. An intense round of layoffs and plant shutdowns followed, centered in its Dayton, Ohio, production center.

UAW executives played the critical role in smothering widespread worker resistance to the bankruptcy-driven concessions that followed. They were rewarded in 2007 with control of the underfunded retiree health care trust of the Big Three (VEBA), which they hoped would provide a new stream of revenue to feed their salaries and expense accounts. Now, in the Chrysler and GM bankruptcies, the UAW has converted these retiree health care obligations into company stock, giving it an even more pressing interest in extracting further profit from the workers it falsely claims to represent.

The importance of the 2005 bankruptcy of Delphi cannot be underestimated. One of the largest bankruptcies of an industrial corporations in US history to that point, it set the stage for the sweeping rollbacks imposed on Big Three auto workers in 2007—in which the companies dumped their retiree health care obligations—and this year's bankruptcies of GM and Chrysler.

As Delphi entered bankruptcy, Delphi CEO Robert S. Miller explained that the action was needed in order to eliminate "legacy" costs—the contractual costs of providing pensions and health care to retired workers. Miller predicted that this would be necessary for the industry as a whole. He complained of the "social contract" that prevailed in industries like auto "to elevate their workforces with elaborate defined-benefit retirement programs." That was all well and good "[b]ack in the days when you worked for one employer till age 65 and then died at age 70," he said.

However, "People are living longer these days," Miller continued. "And medical science is rapidly expanding the capability to spend vast amounts of money keeping you alive for decades...the question is, how can we afford it?"

If this all sounds vaguely familiar, it should. In slightly different language, President Barack Obama is making the same argument now about health care "reform." The attack on the pensions of retired auto workers, which began at Delphi, was only an early phase in a far broader attack on the living conditions of retired workers. Obama's health "reform" is in fact the gutting of Medicare, the medical insurance system for elderly Americans. This will be followed, sooner rather than later, with an assault on Social Security.

Indeed, Miller pointed to this in the same passage, which originally appeared in *Business Week* in 2004. "My worries go beyond the auto industry," he wrote. "What I am describing is also embedded in our debates over Social Security and Medicare. The overwhelming voltage in the political third rail of touching these entitlements will forestall corrective action for years, but the problem will only grow." It is now evident that a central preoccupation of the Obama administration is to neutralize this "third rail."

The essence of the matter is this: the American ruling class no longer accepts the proposition that workers are entitled to healthy, decent, and long retirements. This, it has been concluded, is simply "too expensive."

This author recommends:

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