Opposition to GM plan to dump white collar pensions

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General Motors white collar retirees are denouncing a plan by the company to offload its US pension obligations by offering lump-sum payments to some retirees and shifting the rest into an annuity program.

The move affects 118,000 salaried retirees at the largest US automaker. GM is offering lump-sum payments to 42,000 recent retirees. The company has purchased a group annuity contract through Prudential Financial to cover payments to those who are ineligible or who do not accept a buyout.

Many states partially insure annuities. However, annuities are not covered by the US government's Pension Benefit Guaranty Corporation (PBGC), which insures pension plans. Thus, retirees are exposed to the potential loss of their benefits if Prudential were to go under.

Retirees have until just July 20 to make a decision on the buyout. Prudential is set to take over benefit payments in January of 2013. The move is seen as an effort by GM to improve its credit rating, solidifying its balance sheet by removing pension risk. Last year GM posted record profits of $7.6 billion.

Jim Shepherd, president of the General Motors Retiree Association, in a letter to CEO Dan Akerson called the announcement by GM "galling." He continued, "Never, even in our wildest imagination, could we ever have foreseen that GM would then turn around and treat its retirees with such little regard and with such disdain as GM is doing."

The move by GM to shed its white collar pension obligations follows a move by Ford to offer pension buyouts to some of its 98,000 white collar retirees. Ford is allowing those who do not take the buyout to remain in its pension plan.

GM's action has been facilitated by recent changes in pension laws that allow companies to offer retirees lump-sum payments that have an equal economic value to the monthly pension payments they replace. In prior years, a company had to pay a premium to retirees if they offered a lump sum.

The action by GM will remove about $26 billion in pension obligations, about one-fifth of its total, from its balance sheet. The auto maker currently operates the largest private pension plan in the world.

According to a Security and Exchange Commission filing, GM's pensions were underfunded by some $14.2 billion at the end of 2011. As part of the deal, GM will shift $29 billion in pension assets to Prudential and put in between $3.5 and $4.5 billion in cash. General Motors has already ended its defined benefit pension program for new-hires, substituting an inferior 401(k) program.

Richard Fusinski, a retired GM engineer, told the *Detroit Free Press*, "General Motors has this big ball of money and they want to try to get rid of us, the people who put them where they are. I am very upset that they are throwing us under the bus."

In offering the buyouts, Ford and GM are forcing retirees to make a rapid decision with life-changing consequences. The size of the lump sum payment varies with the age of the retiree, but it will not be enough to allow a retiree to make a secure investment that will guarantee an income equivalent to his or her monthly retirement check.

An auto industry analyst quoted by the *Wall Street Journal* called GM's move to dump its pensions "about as dramatic a risk reduction approach as you can take." The analyst continued, "It is taking all the liabilities off the books and passing it on to a third party so it no longer has any responsibility whatsoever." Further, by annuitizing pensions, a company is able to terminate its payments to the PBGC.

The action by GM is by far the largest of its kind by any corporation. It is expected to set a pattern that other companies will follow. While most employers no longer offer defined benefit pension plans, the overall size of the US pension market is still quite large, estimated to be between $2 trillion and $2.5 trillion. Currently, only about $2 billion to $3 billion in pension risk transfers are done each year.

The economic crisis has reduced the value of many pension funds by up to one-third at a time when their pension liabilities have continued to grow. Changed accounting rules now require companies to report pension liabilities on their balance sheets, creating a greater incentive to shed them.

While the pensions of GM hourly employees are not directly affected by the company's latest move, the United Auto Workers agreed last year to discuss changes to pensions during contract negotiations. In remarks to the *Chicago Tribune*, GM Chief Financial Officer Dan Ammann said, "We have generally agreed with the UAW that we will maintain a dialogue on pensions going forward and continue to look at de-risking alternatives, but anything we discuss with them on that remains private between us and them."

In comments to the *Detroit Free Press*, General Motors CEO Akerson indicated that GM was strongly considering dumping its hourly pensions. Noting that the question of annuitizing pensions had been discussed with the UAW in 2011, he said, "It's certainly something we would consider if the opportunity arose." The current agreement between the UAW and GM expires in 2015.

A buyout of the pensions of GM hourly retirees would sharply reduce the company's remaining pension obligations. Currently, there are more than 400,000 GM blue collar retirees and surviving spouses receiving pensions.

The move by GM to dump its white collar pension obligations follows the attack on retiree health benefits carried out in 2009 as part of the company's bankruptcy and reorganization. At that time, retirees lost vision and dental coverage. That followed the UAW's acceptance in 2007 of a Voluntary Employees Beneficiary Association, or VEBA, which shifted the responsibility for payment of retiree health benefits from the auto companies to the UAW. From the beginning, the VEBA was under-funded, and the UAW since has imposed higher deductibles and co-pays on retirees.