

Pensions at risk: Who will pay?

Taxpayers will pay. of course; are you really surprised at that?

By R.D. NORTON

McClatchy Tribune News Service

With GM flirting with bankruptcy (and Chrysler already there), it's fair to ask whether taxpayers will be expected to cover the costs of the pensions the companies promised their workers. The cost for GM alone is estimated at \$13.5 billion.

The Big Three automakers' retiree health benefits are not insured by anybody and conceivably could be scrapped. When they reach age 65, retired workers would have to rely on Medicare.

But the government does guarantee autoworker pensions, which are insured for as much as \$54,000 a year.

Though still common in the public sector, "defined-benefit" pensions exist today in the private sector mainly in heavily unionized industries. U.S. automakers are the poster boys for such generous pensions.

As history would have it, the 1963 bankruptcy of another U.S. automaker — Studebaker — triggered the idea of federal pension guarantees. After Studebaker went out of business, its retired workers received only about 15 cents on the dollar of their promised pensions. Although it took a decade, Congress in 1974 created a safety net for pri-

vate-sector retirees: the Employee Retirement Income Security Act (or ERISA).

ERISA established the Pension Benefit Guaranty Corporation: PBGC. Also known as "Penny Benny," PBGC insures the traditional, defined-benefit pensions of workers whose employers go broke or otherwise come up short. Some 44 million workers and retirees fall under its protective umbrella.

Earlier this decade, United Airlines, Bethlehem Steel, US Airways, LTV, Delta Airlines, TWA, National Steel, Kaiser Aluminum and several other major companies declared bankruptcy and turned their pension obligations over to PBGC. At the end of the fiscal year, the agency's liabilities were \$72.3 billion; its assets, \$61.6 billion.

To date, general revenues have not been used for PBGC pension payments. Instead, the agency uses funds from three sources: assets it recovers from failed companies; insurance premiums (currently \$30 per worker) collected from companies with defined-benefit pension plans; and investment earnings. In fiscal 2008, the insurance premiums brought in \$1.5 billion.

The problem — and what could leave U.S. taxpayers holding the bag for GM and other pension obligations — is the fact that PBGC's management seems to have taken "a flyer" last year on high-risk investments to put the agency back in the black.

Against the advice of the Con-

gressional Budget Office and Government Accountability Office, the agency's then-director decided the only way to close the gap between PBGC assets and liabilities was to make riskier investments, which — when things go well — pay higher returns. But things didn't go well.

Unfortunately, PBGC shifted gears at exactly the wrong time, just as the stock market plummeted. In effect, Penny Benny placed a big bet and lost. How big a loss remains a secret.

PBGC's new director, Vincent Snowbarger, has made it clear that the agency wants no part of GM's and Chrysler's pension obligations. As he put it, "Just because a company goes into bankruptcy doesn't (necessarily) mean that they terminate their pension plan."

If GM files for bankruptcy, as expected, PBGC will be under intense political pressure to take on its — and Chrysler's — pension obligations, adding to the agency's woes and increasing the likelihood that taxpayers will face another huge bill.

Under such circumstances, millions of Americans with no pensions of their own would wind up paying higher taxes to maintain pension benefits for autoworkers.

R.D. Norton is a senior research fellow at the American Institute for Economic Research, 250 Division Street, Great Barrington MA 01230; Web site: www.aier.org.

