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Some Big Companies Failed to Add to Pensions in 1990's

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By MARY WILLIAMS WALSH
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More than half of the nation's biggest companies with pension plans sailed through the boom of the late 1990's and the bear market that followed without putting any cash into their pension funds, using loopholes in federal law to skirt a requirement for annual contributions, according to a new study by the investigative arm of Congress.

The study, issued yesterday by the Government Accountability Office, examined weaknesses in the federal pension rules in an effort to prevent cataclysmic failures like the one at United Airlines. United, which sponsors four large pension plans for its employees, followed the letter of the pension law, records at the Labor Department show, but the airline still ended up with a $10 billion shortfall in its plans.

Those plans are now expected to be taken over by the Pension Benefit Guaranty Corporation, the federal agency that insures pensions. It would be the biggest pension failure since the government began insuring pensions in 1974. The default at United has raised questions about whether other airlines will be able to keep their own pension plans going, and whether the pension guarantor will one day have to be bailed out by the taxpayers.

The G.A.O. noted that when Congress enacted the pension law 30 years ago, it expected companies to create pension funds and, at the very least, make yearly contributions equal to the amount of benefits their workers had earned for that year. There were also special rules for catching up quickly if the trust funds fell too far behind.

But underlying that general principle were details that gave companies a good deal of latitude in measuring the value of their pension promises. And in the years that followed, the law has been amended several times, making it possible for a company and its actuaries to disguise the true economic condition of a pension fund without violating the law. The G.A.O. described several of these methods, including the use of inaccurate assumptions and the practice of keeping prior-year contributions on the books at original value, even after market losses have wiped them out.

The investigators found that most companies let their pension contributions lapse to some degree, even in good years. Every year from 1995 to 2002, they said, about four plans in 10 were less than fully funded. The weaker a company happened to be, the investigators found, the likelier it was to be operating a pension fund that was also weak and to be calculating its pension values in a way that would "depict plan funding in a more optimistic light."

"These plans have the potential to create additional financial exposure and thus risk to the P.B.G.C.," the investigators wrote, referring to the Pension Benefit Guaranty Corporation. That agency has developed financial troubles in the past few years, following the failure of a number of big pension plans.

Bradley D. Belt, the executive director of the P.B.G.C., said that he was pleased that the Congressional investigators had identified some of the same problems he was concerned about.

"The G.A.O. report confirms what we have been saying all along," Mr. Belt said in a statement. "The rules must be changed to ensure that companies keep the pension promises they have made to their workers."

The Bush administration has been calling for a thorough overhaul of the pension funding rules since last January. But changes on such a broad scale would have to be enacted by Congress, and Congress has so far been occupied with other issues.

Large companies with pension funds have lobbied against the administration's pension proposals. They say it would be difficult to offer pensions at all without the flexibility now built into the pension law.

The G.A.O. based its study on the 100 largest corporate pension plans in each year from 1995 through 2002. Some plans in the study have failed since then, including those at Bethlehem Steel and LTV Steel. Others have been terminated by their corporate sponsors, or have been split up and reconfigured in corporate mergers and spinoffs.

The G.A.O. did not identify any of the corporate sponsors in its report.

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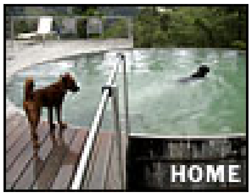

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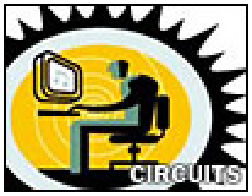

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