Debt Doubles at Agency that Insures Pension Plans

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The federal agency that insures pension plans said yesterday that its deficit, already at the highest in its history, had doubled in its last fiscal year, to $23.3 billion.

Joe Marquette/European Pressphoto Agency

Bradley D. Belt, left, director of the agency, called for quick action.

Over a 12-month period, the agency, the Pension Benefit Guaranty Corporation, incurred losses of $12.1 billion, according to the agency's audited annual report for fiscal 2004. Much of the loss was a result of pension fund failures in the airline industry.

The agency, created in 1974 to be the federal safety net when pensions fail, has now lost an average of $10 billion a year for the last three years, according to one estimate. The mounting losses come at a time when the agency is responsible for paying the pensions for more than one million people covered by pension plans that failed.

The agency's executive director, Bradley D. Belt, called on Congress yesterday to address the situation quickly, "so the problem doesn't spiral out of control." He said that the Bush administration was preparing a plan for a comprehensive overhaul of the pension system, which it would propose early next year.

The Pension Benefit Guaranty Corporation is paid premiums by companies that offer traditional pension plans. But it does not have the legal authority to raise those premiums or take other fundamental steps to bring its finances back into balance. Such measures would have to be enacted by Congress.

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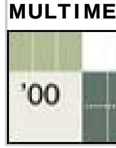

Chart: Indebted

Congress, however, has not addressed the problems of America's pension system in a comprehensive way since the late 1980's, when a number of large steel companies with traditional pension plans defaulted. Since then, lawmakers have made some lesser amendments to the system, but even those have been made with great difficulty. The issues involved are complicated, and any true pension reform will be costly to someone - either companies, workers or the federal government.

Experts warn that waiting will not make the troubles go away. The system of regulating and insuring traditional pensions called defined-benefit pensions is increasingly resembling the system that did the same for the savings and loan industry two decades ago.

Congress had difficulty correcting that system's structural problems as well. As a result, there were delays and missteps, and the problems had years to grow and deepen. In the end, the entire system collapsed in 1989 and Congress had to authorize a federal bailout that cost about $200 billion.

"The Pension Benefit Guaranty Corporation is living on borrowed time," said Representative George Miller, a California Democrat who has followed the troubles in the pension system closely. He issued a statement yesterday saying the possibility of "an S.& L.-style taxpayer bailout of the agency to the tune of billions of dollars has increased."

In announcing the pension agency's latest financial results, Mr. Belt, the executive director, said that it was not running out of cash. With reserves of $39 billion, he said, it should be able to keep sending retirees their pension checks "for a number of years," even if Congress does nothing.

The problem is that the pensions the agency must pay retirees are much larger than the reserves, Mr. Belt said. The pensions owed retirees measure $62.3 billion in today's dollars.

Unless the agency finds a way to close the gap between the $39 billion that it has and the $62 billion that it owes, it will run out of money at some point. In that case, either retirees will be denied their benefits, or else Congress will have to appropriate money for a bailout.

Mr. Belt also noted that the agency's problems were worsening at a time when the general economic environment has been improving. He said the agency now faced $96 billion worth of risk from companies that are "reasonably possible" to default on their pension promises. The comparable number a year ago was just $82 billion.

The pension agency identifies such companies by looking at their corporate credit ratings, together with the weakness of their pension funds.

The agency does not identify the companies whose pension plans it expects to take over. Still, it is clear that the airline industry was responsible for much of the agency's loss for the fiscal year.

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US Airways three pension funds are expected to cost the agency $2.1 billion. And United Airlines, a unit of UAL, recently announced that it would terminate all four of its pension plans as part of its efforts to emerge from bankruptcy. Taking over United's pensions alone will cost the agency an estimated $6.3 billion, by far the biggest pension insurance claim ever made by a single company. Accounting rules require the agency to book that loss in its fiscal 2004, even though it has not yet taken over United's plans.

Even before yesterday's announcement, analysts were warning that the pension agency needed help. Douglas J. Elliott, president of the Center on Federal Financial Institutions, said that if Congress took corrective action quickly, the cost would be small relative to the cost of a bailout some time in the future. The center is a nonpartisan research institute that examines the federal government's various lending and insurance programs.

Mr. Elliott said that the agency's new numbers brought its average losses to more than $10 billion a year for three years.

"This is a trend," he said. "This isn't something where you can just say, 'Well, that was a bad year, thank goodness we're over it.' "

In addition, the agency's fiscal 2004 was a year of general improvement in overall economic and financial conditions, Mr. Elliott said. Had interest rates not changed slightly in the agency's favor, its losses would have been even larger.

Congress is not expected to address the pension agency's problems in the current lame duck session because it already has a full workload. But some members said yesterday that they were concerned about the strength of the nation's pension system and hoped to introduce legislation early in 2005.

"This issue has wide-ranging implications on retirees, employers, workers, taxpayers and the government," said Representative John A. Boehner, the Ohio Republican who is the chairman of the House Committee on Education and the

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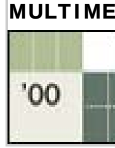

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Workforce. Mr. Boehner said in a statement that he planned to introduce a bill in 2005 that would address what he called "systemic pension underfunding problems."

The Education and Workforce Committee has already held hearings on the problems of the pension system and possible remedies. Mr. Boehner said that in addition to making sure companies set aside enough money for their pensions, the bill would require companies to disclose clear information about their pension plans and pay adequate insurance premiums for their coverage.

In addition to the premiums it collects from companies, the pension insurance program receives the assets from the failed pension funds it takes over and invests them. It does not currently receive money from income tax receipts.

The insurance premiums have not been increased since 1994 and are thought to be inadequate relative to the amount of insurance coverage companies receive. United Airlines, for instance, has paid about $50 million in insurance premiums over the years, for coverage of its $6.3 billion claim.

Pension specialists also point out that the premiums do not have anything to do with the amount of risk companies bring to the pension insurance program. Companies with pension plans that do not have adequate funds do pay higher premiums than companies with strong plans. But that way of operating does not account for one of the most important signs of whether the plan will collapse or not: the company's own health.

A strong company with an unhealthy pension plan poses nowhere near the risk of a weak company with an unhealthy pension plan.

Mr. Boehner has suggested finding a way to distinguish between weak and strong companies, and charge higher premiums to the companies that pose greater risk.

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