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An Outsider's Grim Prognosis for Pension Agency

By MARY WILLIAMS WALSH

It has been a struggle for some, but most big companies are coming up with enough cash to keep their pension funds legally sound, after three years of extraordinary losses. Not so their government backstop. Slowly but surely, the federal agency that insures pensions is running out of money.

An independent analysis of the Pension Benefit [Guaranty Corporation](#), made available to The [New York Times](#), suggests that the agency will go broke in 2020 if current financial conditions persist. Even if things improve, so that fewer pension funds fail than in recent years, the agency is still expected to run out of money by 2023.

"Any private insurance company under those circumstances would be shut down," said Douglas J. Elliott, the president of the Center on Federal Financial Institutions and the author of the new study.

If the pension agency goes broke, one of two things would happen: the retirees who rely on it would stop getting their checks, or the taxpayers would have to bail the agency out. The agency currently pays benefits to more than a million people whose pension plans have collapsed. It also guarantees benefits promised to 43 million more people.

The pension insurance program is only one of many such promises by the government. Altogether, Washington insures some \$6 trillion in risks ranging from crop failures to nuclear meltdowns.

The analysis by Mr. Elliott comes at a time of mounting concern about the pension plans of some of the biggest airlines, particularly United, which is in bankruptcy and has warned that it may default on its pension obligations. That could compel other airlines to cut or shed their pension plans, too, leaving the agency on the hook for billions of dollars in benefits. On Sunday, US Airways filed for bankruptcy for the second time in two years, raising fears that it might default on the three pension plans it operates, for flight attendants, mechanics and white-collar employees. The pension agency said that it would suffer a \$2.1 billion loss if all three plans failed.

Mr. Elliott is not the first analyst to suggest that losses on this scale would cripple the agency. But his sophisticated economic model is thought to be the first - at least in the public domain - to try to determine

where the breaking point would be and what it would look like.

Such projections are forbiddingly difficult. "It depends on what market conditions are," said Richard A. Ippolito, who was the pension agency's chief economist from 1986 to 1999. "It depends on which companies are going to get better and which are going to get worse."

Mr. Elliott's findings suggest that America's system of guaranteed pensions is in far more precarious shape than its older, bigger and more prominent cousin, the Social Security system.

The Social Security trust has been subjected to repeated analysis: its current forecast says it is likely to run out of enough money to pay full benefits in 2042, absent remedial measures. Even in Social Security's worst-case outlook, the money probably would not run out until 2031, said Steve Goss, the Social Security Administration's chief actuary.

In addition, because Social Security takes in substantial payroll tax dollars every year, it would still be able to pay at least 73 percent of promised benefits from that cash flow.

Some 201 million people participate in Social Security, and forecasts of its possible collapse 38 years from now have long stirred debate. In August, for example, Alan Greenspan, the chairman of the Federal Reserve, told a conference that he feared "we have promised more than our economy has the ability to deliver," and called for a scaling back.

There is far less discussion of the pension agency's running out of money, even though the cash squeeze seems to be looming sooner - and even though it would cause much greater pain to the affected retirees.

With no one trying to model the pension system's financial future, policy makers have had no clear sense of how grave the system's troubles are. Congress, therefore, has tended to overlook its problems altogether, Mr. Ippolito said.

As with the Social Security situation, Mr. Elliott said, the earlier any changes are made to the pension agency's finances, the less drastic they will need to be.

He ran various possibilities through his model and estimated the cost of doing nothing until the cash ran out and of making various fixes. One of the cheapest ways to revive the agency, he determined, would be to pump in \$14 billion right now.

One of the costliest outcomes would occur if airlines defaulted on their pension plans without any compensatory action. That would leave the agency penniless by 2018, Mr. Elliott's model predicted, and Congress would have to authorize a \$109 billion bailout to resurrect it.

Mr. Ippolito, who left the agency to teach in the law school at George Mason University in northern Virginia, said that Congress should raise the premiums the agency charges corporations to back their

pensions. But that idea is not likely to be welcomed by business.

Mr. Elliott, who also put price tags on various solutions, said that he was not advocating one type of rescue or the other, but merely trying to predict the costs.

"What I really want to do is get the debate going," he said.

That has been hard because the Pension Benefit Guaranty Corporation is little known and because those most likely to be stuck with the repair bills - companies that have pension funds - tend to argue that the agency can run acceptably well with a deficit and does not need fixing.

Representative John A. Boehner, an Ohio Republican who is chairman of the House Committee on Education and the Work Force, is expected to make a speech today at the United States Chamber of Commerce in which he will outline his ideas for pension reform and try to win over the business community. Mr. Boehner is expected to call for changes in the rules that govern pension contributions, and for making the pension law apply even when a company has declared bankruptcy.

In addition to charging companies premiums, the agency takes over the assets of pension funds when companies default, invests them, and uses the income to pay retirees. That means that every time a pension fund collapses, the agency gets an immediate infusion of money.

It also gets an even bigger burden of debt, but the debt is paid over the long term. Until the debts start coming due in large numbers, the tide of new money coming in gives the deceptive appearance that the agency is getting healthier every time another pension fund fails.

"It's the ultimate Ponzi scheme," said Mr. Ippolito, the agency's former chief economist. "That's what a Ponzi scheme is, by the way. It's when you're cash-flow solvent, but you're completely bankrupt as an organization. And what you need to keep going is to keep getting more suckers to come in to the pool every year."

The longer a Ponzi scheme keeps going, however, the more unsustainable it becomes.

"Sooner or later you run out of luck and the game is over, which is like all Ponzi schemes," Mr. Ippolito said. "You just can't put it off any more. But now, you're in worse shape than ever, because in the meantime, you've taken all these additional claims in."

A spokesman for the pension agency declined to comment in detail on Mr. Elliott's projections, saying that the agency uses a different type of statistical modeling and does not try to make forecasts beyond 10 years into the future. He did say, however, that Mr. Elliott's forecasts are generally consistent with the agency's own.

Notably, the pension agency recently stopped making official assertions that it had enough money to pay

retirees all their benefits "for the foreseeable future." Its most recent annual report says only that it has enough money "for a number of years."

In an interview, Mr. Elliott said that his extensive work with insurance companies when he was an investment banker gives him the experience needed to model the pension agency's future cash flows.

"I've literally done hundreds of models of insurance companies," he said. "It was my work."

Having reached a point in his career when closing deals and making money no longer held much fascination, he said, he began to want to have a voice in public policy. "I probably talked to about 100 people in Washington," he said. "It started sinking in to me, the huge nature of the government's role as a lender and an insurer."

Huge - and to a great extent undefined. Tucked away within various government agencies are programs to insure a grab bag of risks: crop failures, floods, bank runs, turmoil in developing countries, even nuclear meltdowns. There are also lending programs to help with everything from hurricane cleanups to helping bring home Americans who run out of money overseas.

Some of these programs are well established and documented. But others stumble along in obscurity, on a wish and a prayer. The nuclear-accident insurance program, for instance, does not charge companies premiums, and offers seemingly limitless coverage to the industry without explaining how claims would actually be paid.

Another federal insurance program, which guaranteed deposits in savings and loan institutions, failed catastrophically in 1989, after years of policy missteps. Its bailout cost taxpayers an estimated \$200 billion in today's dollars.

More recently, a program to help companies buy under-used radio spectrums suffered billions of dollars of losses when-in an effort to help small companies compete-the Federal Communication Commission effectively made long-term loans just as the technology bubble burst.

"You had the F.C.C., which is completely inexperienced in lending, proposing a lending program," Mr. Elliott said.

Disaster might have been avoided, he said, had the officials had an opportunity to learn from the successes and failures of other government lending programs.

"Generally, what has happened is, programs have been put in place on an ad hoc basis, as Congress has perceived the need," he said.

Mr. Elliott set about cataloging all the programs he could find. He discovered that the government's lending programs, totaling about \$1.4 trillion of debt, were reasonably well documented.

But the insurance programs were not. He still is not sure he has identified all of them, but so far he has cataloged about \$6 trillion worth of federally insured risks. That appears to make the United States government the largest lender and insurer in the world, he said.

Only months after Mr. Elliott founded his research center, United Airlines announced that it was suspending contributions to its four big pension plans. The total shortfall of the plans is about \$8 billion, and the contributions are required by law. But regulators have been unable to enforce the law because United receives court protection in bankruptcy.

Mr. Elliott's model shows that the pension agency will go broke whether the airlines default in succession or not, but the drama at United has made it easier to get people's attention, he said.

"I think United really changed people's thinking," he said. "Whether that will lead to action, and appropriate action, remains to be seen."