

June 30, 2005

G.M. Tops List as Study Questions Pension Accounting

By [MARY WILLIAMS WALSH](#)

[General Motors](#) has the nation's biggest corporate pension fund. And the accounting for that fund may represent the biggest illusion among American corporations.

It is no secret that pension accounting is a hall of mirrors that distorts the appearance of both pension plans and the companies that sponsor them. But a new analysis of the 500 largest American companies finds that pension accounting allows nearly all of them with pension funds to inflate their net worth.

The biggest discrepancy is at G.M.; if the company's balance sheet were adjusted to portray the full magnitude of its pension assets and obligations, the analysis found, its net worth would fall by about \$38 billion - wiping out shareholders' equity.

The study "shows the General without its clothes, and it's not pretty," said the author of the new report, Jack T. Ciesielski, publisher of The Analyst's Accounting Observer.

To be sure, General Motors and its fund are not in immediate danger. It has made all contributions required under current rules, and the fund had assets of about \$100 billion at the end of 2004, far more than it needs to pay benefits coming due at about \$7.4 billion a year.

But Mr. Ciesielski's report comes as concerns mount about the financial outlook of General Motors, given its competitive pressures and growing health care costs. At the same time, the Securities and Exchange Commission has been reviewing the pension accounting of G.M., [Ford Motor](#) and several other large companies. When the S.E.C. began its review last fall, an official said the agency had not found violations of the securities laws by G.M. or the other companies, but wanted to see whether their pension calculations were connected with efforts to "smooth" earnings.

A G.M. spokesman said that while Mr. Ciesielski's analysis "might be a topic for some type of theoretical debate," G.M. was abiding by the accounting rules now in place and considered them appropriate.

"This is a complicated accounting issue, and the average investor has to do a little bit of homework," said the spokesman, Jerry Dubrowski. "Our disclosures are comprehensive, and the reason that he's able to provide so much information in his analysis is because of our disclosures."

Mr. Ciesielski, a member of the Emerging Issues Task Force of the Financial Accounting Standards Board, also adjusted the balance sheets of the 500 largest American companies that run pension funds. Virtually all reported an inflated value for their shareholders' equity as a result of their pension accounting, he contended. But G.M. had by far the biggest discrepancy, or "equity gap," as Mr. Ciesielski calls it.

In its annual report, G.M. reported a net worth, or shareholders' equity, of \$27.7 billion at the end of 2004. But that figure includes several pension-related items that are little better than "accounting placeholders," Mr. Ciesielski said, numbers that poorly reflect the actual size of G.M.'s obligations to its pensioners and the investments it has made to secure them.

General Motors did nothing unusual or improper in using these numbers; it simply followed standard pension accounting rules. When Mr. Ciesielski removed these numbers and replaced them with figures that he believes more closely correspond to economic reality, G.M. ended up with a negative shareholders' equity of \$10 billion—a \$38 billion swing from the reported amount.

"Negative shareholders' equity is not a death sentence," Mr. Ciesielski said in an interview, explaining that he was not trying to predict whether G.M. might one day go bankrupt or default on its pension obligations. Rather, he said, his study showed just how much the current accounting rules for pensions can obscure a company's true financial condition.

"I think what I showed on the revised balance sheet makes a lot more sense," he said. His version clarified the values of G.M.'s assets, the sizes and ranking of the various creditors' claims on them - including the claims of pensioners - and what was left over as shareholders' equity. He also suggested putting the refined pension values on a separate, supplementary balance sheet, rather than tucking them away in a footnote. The current practice "blurs everything for the investor," he said.

Ronald J. Ryan, founder of Ryan ALM, a consulting firm, said of G.M., "They followed the rules."

"That's why the S.E.C. is, for the most part, going to come up empty-handed" in its inquiry, he said. "It's the rules that are wrong."

Another big equity gap, of \$22 billion, was at [I.B.M.](#), where shareholders' equity fell from a reported \$30 billion to \$8 billion in Mr. Ciesielski's analysis. At Ford Motor, shareholders' equity fell from the reported \$16 billion to \$4.7 billion.

G.M. was not the only company to end up with a net worth of less than zero in Mr. Ciesielski's analysis. So did [Boeing](#), Goodyear and UST. [Lucent Technologies](#), [Delta Air Lines](#), [Maytag](#) and Qwest had

negative shareholders' equity even before Mr. Ciesielski did his adjustments, and at those companies his revisions made that condition worse.

Even the net worth of a corporate stalwart, [General Electric](#), was inflated by \$10 billion through pension accounting, Mr. Ciesielski found. It fell from \$110.3 billion to \$100.8 billion once he removed the accounting placeholders from its balance sheet and replaced them with market values for G.E.'s pension fund.

The accounting rules for company pensions have no direct connection with the pension-funding rules, which are now being scrutinized by Congress in light of the huge pension failure at United Airlines.

As it happens, G.M. has complied energetically with the funding rules, even taking the unusual step in 2003 of issuing \$18 billion worth of bonds and putting the proceeds into its pension fund. In its annual report and other public documents, the company states that its pension plan is fully funded under the funding rules, and that it expects not to owe any more pension contributions until 2010.

The way the accounting for pensions now works, most of the routine ups and downs of a pension fund are kept off the sponsoring company's balance sheet. Instead, they are kept in running tabs that are expected to net each other out over the long term. The argument for doing things this way is that a pension fund is a long-term entity and its year-to-year fluctuations may not be meaningful information for investors.

Mr. Dubrowski, the G.M. spokesman, said that confronting an investor with the volatility of a pension fund would be like showing a 401(k) plan participant his mutual fund balance every day. "You have to think about it on a long-term basis," he said.

The trouble is, the big fluctuations of the last few years have not all canceled one another out, and the accumulations are growing very large. When they reach a certain point, companies are supposed to start slicing off a bit every year and counting it as part of that year's labor costs. That can reduce corporate earnings, sometimes for years.

This month, the Financial Accounting Standards Board, which writes the accounting rules for American business, began preliminary work on a complete revision of the current pension accounting procedures.

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For G.M. Retirees, a Growing Sense of Unease

By [DANNY HAKIM](#) and [JEREMY W. PETERS](#)

DETROIT, June 29 - The Buick plant in Flint, Mich., where Elvia Reeves used to work has been demolished, but her health care benefits are as strong as ever. For now, that is.

She and many of the nearly half million American retirees of [General Motors](#) are increasingly worried about the future of their medical benefits as the automaker presses the United Automobile Workers union to agree to deep cuts in health care benefits. At the same time, the legal rights of G.M. - or that of any other company - to cut benefits for retirees as well as the rights of the retirees' former union to negotiate for them are a matter of debate.

"Everything we worked to build up, they're trying to tear down," said Ms. Reeves, 72, whose seven different prescription drugs, for high blood pressure and arthritis, cost her only \$35. On Wednesday, she and other Flint-area retirees gathered at their old union local, No. 599, to buy tickets for a pig roast next month, but the possible cuts in benefits were on everyone's mind. As a U.A.W. cookbook came up for sale to raise money for the local, one of nearly 100 attendees yelled, "Is there a recipe in there for how to roast a C.E.O. of G.M.?"

The outcome of the unusual talks this summer between G.M. and the U.A.W., coming at the halfway point of their four-year labor pact, remains to be seen. The talks, prompted by a sharp decline in G.M.'s earnings, are expected to continue into July. In a meeting in early June, a top U.A.W. official in Detroit told local union leaders that the company had threatened to cut health care benefits with or without the union's approval today, to coincide with a teleconference of G.M.'s board.

But people close to the talks said they did not expect G.M. to hold to its ultimatum; G.M. officials have recently dismissed talk of a deadline.

"We're not on deadlines," Edd Snyder, a G.M. spokesman, said this week. "We're not dealing with deadlines, if you will. We're not talking about deadlines, we're talking about talking and having discussions."

The U.A.W.'s president, Ron Gettelfinger, said in a recent interview that he would not be pushed into a corner by G.M., but was willing to give some modest ground within the terms of the contract. He has also said that he will not accept an unchecked assault on retiree benefits.

G.M. is seeking steep cuts in health care benefits and has focused on retirees because they generate the majority of its costs. In 2004, retirees accounted for about 70 percent of G.M.'s total health care bill, or \$3.6 billion of its \$5.2 billion health care costs.

G.M.'s hourly workers and retirees pay no monthly premiums or deductibles. Retirees make co-payments for visits to the doctor and a \$5 co-payment for each prescription, with total payments far below the norm.

Unlike G.M., about 40 percent of United States companies with more than 5,000 employees offer no retiree health benefits, according to a recent report by the Sanford C. Bernstein & Company, an investment research and management adviser.

The burden of retiree benefits will grow for G.M. as its work force continues to shrink, G.M. says.

The company, which had half a million active workers in the late 1970's, has 111,000 today and is striving to cut another 25,000 hourly jobs by the end of 2008. That has left G.M. with two and a half retirees for every active worker, a ratio that continues to rise.

Earlier this month, Rick Wagoner, G.M.'s chairman and chief executive, threatened to cut the company's health spending with or without the union's support. Mr. Gettelfinger, however, has said the union will not reopen its contract, which does not expire until 2007. Brian Johnson, an analyst at Sanford C. Bernstein, said in another recent report that G.M. had wiggle room within its U.A.W. contract to cut benefits for retirees. He also noted that unions had been limited by courts in their ability to negotiate for retirees, and that workers could not legally strike over cuts in the health benefits for retired workers.

But Leonard Page, a former legal counsel for the National Labor Relations Board who also served for 30 years on the U.A.W.'s legal staff, said the retirees would have a solid legal claim to pursue against G.M.

"The retirees, a group of them, would obviously sue and claim that this is a lifetime benefit," he said.

Mr. Johnson, who has a law degree but is not a practicing lawyer, said circuit courts had split on the rights of retirees.

"If it goes to the Supreme Court, it would likely be resolved against the retirees," he said.

In Flint on Wednesday, Stan Marshall, a 76-year-old retiree, said: "I'll work with the devil if it protects our benefits. If they think they're just going to take our benefits we've fought for over the years, they're going to have one hell of a fight."

When Floyd Laetz started as an office manager in 1929, he was making 35 cents an hour. Those were the days before he had a union-backed job and health insurance. Now, at age 92, his five prescriptions, mainly for his heart, cost him \$25 every three months. He has been retired since 1971.

"Darn it, we've got good benefits here at General Motors," he said, adding that he could stand some cuts but was worried about the effect of cuts on retirees not as financially secure as he is.

Frank Molina, 76, worked for G.M. for nearly 34 years before retiring in 1981. His first job was putting tires on 1947 Buicks for 97 cents an hour.

"Back then, it was beautiful," he said. "We had a good union in there, good company people. Everyone got along. You did your work, they did theirs."

He worked for the Buick division of G.M. at a plant outside the Local 599 union hall in Flint back when there were so many Buick plants in the area, it was called Buick City. Now, "I don't think Buick will be here much longer," Mr. Molina said. "I'd give it another three to six years."

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