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# G.M. and a U.S. Agency See Pensions in Different Lights

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The federal government contends that [General Motors'](#) pension fund is \$31 billion short of what it owes its work force, according to closely held government data, a figure in stark contrast to G.M.'s assurances that its pension plans are "fully funded."

The government's finding of a huge imbalance suggests that the pension fund may have much larger claims on the company than G.M.'s financial filings have indicated. It was calculated by the Pension Benefit [Guaranty Corporation](#), the federal agency whose job it is to insure employee pensions if a company fails to meet its obligations.

Both the government agency's and G.M.'s methods of tracking pensions are legally acceptable, and their ability to produce such widely varying results shows the difficulty that employees or shareholders have in trying to ascertain the true condition of a corporate pension fund. But the disparity in such estimates has grown increasingly important as some large companies like United Airlines have gone bankrupt, leaving the agency, which took over United's pension plan, with far greater unfunded obligations than previously thought.

G.M. has poured a lot of money into its pension fund and the agency is not suggesting that the company is about to go bankrupt and or that it needs \$31 billion right away, because pensions are long-term obligations.

A spokesman for the automaker, Jerry Dubrowski, said, "There is no reason to expect that G.M.'s pension plans will be terminated, and to assume otherwise is to unnecessarily alarm the many thousands of people who rely upon those plans for their retirement."

The General Motors pension fund is by far the biggest in American industry, promising benefits to more than 600,000 workers, retirees and surviving spouses. With the company under pressure on a variety of fronts, understanding the amount of cash it requires in coming years may be an important factor in determining its future.

The discrepancy between the government's and the company's figures is the result of different assumptions made about how long G.M. would keep operating the pension fund. The federal guarantor made its estimate on what is called a termination basis - it measured the amount that G.M. would owe its workers if it were to terminate its pension plans immediately. G.M.'s calculation that its pension plan is fully funded assumes that the fund will keep going, rather than being ended.

Since 1994, companies with weak pension funds have been required by law to calculate the value of their pension funds on a termination basis and to send the information to the pension guaranty agency. But Congress also enacted a measure keeping the information secret, in response to the stated concerns of companies, who argued that the information could be misconstrued if shared with the public.

The pension agency did not release G.M.'s own estimate of its pensions on a termination basis, which continues to be secret. G.M. said it sent its most recent calculation to the agency about a year ago. The agency made its own calculation at the end of June and released the figure in response to a request under the Freedom of Information Act.

In response to questions about the federal agency's calculation, G.M. released a statement saying it considered it "unrealistic and not indicative of G.M.'s ability to provide future retirement benefits."

"G.M. takes its pension obligations very seriously," the statement continued. "The corporation has contributed more than \$56 billion over the last 12 years to fund our pension plans and meet our obligations to our current and future retirees."

But the government's calculation, or one similar to it, could become the favored method of measuring pension funds for G.M. and some other corporations if a bill now moving through the Senate is enacted, or if the board that writes America's accounting rules revises the one for pensions.

The matter also could come to the fore if General Motors decided to file for bankruptcy protection against creditors as the best way to handle its financial troubles. Companies cannot generally send their pension plans to the government guarantor unless they are in bankruptcy status.

Most financial analysts say that G.M. is not in imminent danger of bankruptcy, because it has roughly \$20 billion in cash and the option to sell off pieces of its lucrative financial services division, the [General Motors Acceptance Corporation](#), as it has been doing in recent months.

"They have liquidity and borrowing power," said David Healy, an analyst at Burnham Securities, adding, "I don't think it's necessary or even wise to solve their problems by going Chapter 11, and they don't have to."

G.M.'s pension fund is actually made up of two big plans, one for salaried employees and one for hourly workers. At the end of 2004, G.M. reported that the two plans had total assets of \$91 billion, and total benefits owed of \$89 billion, for a surplus of \$2 billion.

The government's calculation involves a variety of different assumptions about the future value of benefits the company owes. Terminating the fund means workers would no longer build up any new benefits, and G.M. would no longer provide cash from its continuing operations. But someone - either the government or an insurance company - would still have the obligation to pay all retirees the benefits they had earned, on schedule, in the future.

(Companies with plenty of money can also terminate their pension plans by paying an insurance company to take over the obligations. In G.M.'s case, the government estimated that an insurer would charge \$31 billion in addition to the money in the fund.)

The government says its figure gives the more truthful picture of the plan's condition. The current pension accounting standard specifically cites the Pension Benefit Guaranty Corporation's method as "appropriate."

But most companies have resisted using the termination method, both because it can make their pension plans look very weak, and because they say they do not intend to end their plans. Business groups say that reporting pension values on a termination basis would needlessly alarm and confuse employees.

But as big corporate bankruptcies and pension plan failures accelerated in the last few years, weakening the entire pension system, a small but growing number of economists, accountants and government officials began to take the position that companies with low credit ratings - like G.M. - should be required to disclose the termination values of their pension plans.

Labor Secretary Elaine L. Chao called for such disclosure in a speech in January. Access to the termination data, now secret, would "empower workers, investors, regulators and the public," Ms. Chao said.

"The goal is to ensure that the assumptions that go into measuring a plan's liability better reflect whether or not it will be terminated."

United Airlines, for example, kept reporting its pension values on the usual, continuing basis, even in its third year of bankruptcy, when it was no longer making the minimum contributions required by law and it was clear that termination was inevitable. On this basis, United, a unit of the UAL Corporation, reported a \$6 billion shortfall as of the end of 2004.

But when the government agency finally took over the plans this year, it recalculated them on a termination basis and found a total shortage of \$10.2 billion. United's work force and the Pension Benefit Guaranty Corporation will bear that shortage.

While General Motors is not in the same situation as United Airlines, it has been struggling on many fronts, losing \$1.4 billion and exhausting more than \$3 billion of cash in the first half of this year.

Employee health care costs nearly \$6 billion a year, more than steel, and that figure continues to rise. G.M.'s bond ratings have been cut to subinvestment grade, or junk, by the leading credit-rating services, limiting its flexibility in raising cash.

Then there is the trouble with [Delphi](#), a struggling parts supplier that used to be a unit of G.M. and has said it will file for bankruptcy protection by the middle of this month unless it receives a multibillion-dollar bailout from G.M. and the United Auto Workers union.

On Monday, Fitch Ratings downgraded G.M. further, saying in a statement that among other factors it had "become increasingly concerned with the near-term financial costs that could fall on G.M. as part of Delphi's restructuring."

Late this week, the Senate is expected to debate a broad pension bill that would require companies with junk-level credit ratings to start disclosing their pension values on a termination basis. The bill, which has bipartisan support, is part of an effort to tighten the pension funding rules, in hopes of preventing more big failures like the one at United.

Congress is expected to pass some form of pension legislation in coming months because a temporary pension measure, meant to help tide companies over the bear market several years ago, is due to expire at the end of December. It has been difficult for lawmakers to agree on how tough to make the new rules. On the one hand, they want to close loopholes and hold companies to a rigorous standard; on the other, companies and some unions warn that if the new rules are too tough, companies will stop offering pensions altogether.

The Senate bill would also require companies to make up any shortfalls in their pension funds within seven years. Companies with junk-level credit ratings would have seven years to close the larger gaps that the termination method discloses. That will not be easy, though, since companies with weak credit ratings do not have much extra cash in the first place.

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