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Pension Failures Foil 6-Figure Retirements, Too

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Tom Paulsen worked for 36 years as a trucking executive, and when he retired two years ago, he thought he had secured a comfortable life. He had a 12-acre farm near Sacramento and a pension of $151,000 a year, his payoff for years of working 70-hour weeks.

Then three months later his company, Consolidated Freightways, filed for bankruptcy and the federal government took over its pension plan. Mr. Paulsen's pension fell to $22,000. To pay his expenses, which include $9,000 for health insurance, he has had to divide up the farm and offer most of it for sale.

Mr. Paulsen, 61, is just one of more than 500,000 Americans whose pension plans have failed in the last three years and been taken over by the federal government, leaving many without health insurance and some, like Mr. Paulsen - high earners who retire early - with pensions much lower than those they had counted on.

"The average person is not going to feel overly sorry for me, and I don't expect it," Mr. Paulsen said, acknowledging that he still has investments and savings. "But I moved nine times for the company and expected a lot more. There were a lot of sleepless nights."

As major airlines and old-line industrial companies use bankruptcy to stay alive, or simply go out of business, many workers are being thrown into a federal safety net that does not always protect them.

Among those hard hit are commercial airline pilots, who by law cannot fly passengers after they turn 60. Pilots typically retire with pensions of $100,000 or more, based on their final salaries and years of service. But the federal Pension Benefit Guaranty Corporation, the agency that takes over failed pension funds, usually matches the payments only for workers who retire at age 65 and earn pensions of up to $45,000 a year. The limits are set by Congress.

People who retire early or earn more can feel singled out precisely for their success. In the most recent count, in 1999, those people accounted for 7 or 8 percent of those relying on the agency, but that percentage is expected to rise when the retirees of the last few years are counted.

J. B. Cockrell, 63, retired from United Airlines in 2001 with a pension of about $100,000. But in August the airline announced it was likely to discontinue its pension plans for employees, following the lead of Pan American World Airways and U.S. Airways. Mr. Cockrell fears what will happen next.

"This is something my wife and I are relying on," he said. If the government takes over, he said, his pension might not even cover the mortgage on his home.

"We have two children in college," Mr. Cockrell said. "If we lose the pension, we'll have to sell our home and move someplace less expensive."

Workers or retirees can face tremendous uncertainty as their pension plans teeter or fail. Because the rules are complicated, workers going through a company bankruptcy often have little real sense of how complete their insurance coverage will be. In some cases, the coverage is linked to the amount in the dying pension fund, which companies often do not disclose.

Thirty years ago, Congress approved legislation to ensure that when a company promised a pension, it made good. Since 1974, companies have had to fund pensions according to federal rules, and the government has insured the benefits.

But tens of thousands of companies, many of them small businesses, have exempted themselves from those requirements by terminating their pension funds and offering other types of retirement benefits that are not so heavily regulated. These benefits are not guaranteed.

And of the companies that still sponsor traditional pension plans, hundreds have gone bankrupt and defaulted, including giants like Bethlehem Steel and Polaroid.

The pension agency has now taken over company plans for one million workers and retirees, and has been stretched to a deficit of $9.7 billion. As more pension plans fail, some retirees worry about the security of even their insured incomes.

At the same time, a growing number of companies are discontinuing their retiree medical benefits, which are not covered by government insurance, and for which companies are not required to set aside money.

"For most people, the big hit is losing their health benefits," said Chris Dagg, a staff lawyer at the Mid-Atlantic Pension Counseling Project in New York City, which assists low-income pensioners.

Sheldon Buckler, 73, a retired Polaroid executive in Newton, Mass., recalled that when the company declared bankruptcy in 2001, rumors swept the workforce. "I heard you'd lose 90 percent, or very little, or half," Mr. Buckler said. "I knew I didn't understand it."

Mr. Buckler had retired in 1994, with an annual pension "in the very low six-figure range," he said.

About half of it came from the company's regular plan and half from a supplemental plan for executives.

Executive plans are not insured by the government, so Mr. Buckler lost most of that part of his benefit. And since the remainder still exceeded the insurance limits, he lost about 10 percent of that, too.

He has not had to change his lifestyle, he said, in part because he and his wife continue to work. But he has had to reduce the money he planned to give to his children and grandchildren. He feels the system let him down.

"We felt cheated," Mr. Buckler said. "You work all your life with the expectation that you've earned certain benefits, then someone can pull the rug out. After 30 years with the company, you're just another creditor."

When government officials proposed creating the Pension Benefit Guaranty Corporation in the 1970's, corporations lobbied against it, arguing that few would require its benefits, while all companies with pension plans would have to pay its premiums. Some unions fought it, too, because they thought the funding requirements would divert money away from wages.

Bill Wickert, now 72 and living in Virginia, lobbied against the proposal on behalf of Bethlehem Steel. Now he is one of its beneficiaries. "Thank goodness we lost," he said.

When Bethlehem Steel's pension failed in 2002, the government covered most of Mr. Wickert's standard pension, though he lost an executive compensation package that was not covered. He and his wife have had to give up their car, a Chrysler Sebring, replacing it with a less expensive truck, and at the moment they have no life insurance.

Meanwhile, thousands of rank-and-file steelworkers lost benefits for a different reason. Their pension fund was regulated and insured, but it offered special supplements in case of plant closings. These were not contemplated by Congress when it created the Pension Benefit Guaranty Corporation, so they were not insured.

Nor did Congress create any insurance coverage - or even any funding rules - for retiree medical benefits, which are often promised along with pensions. As a result, retirees whose pensions have been fully covered by the pension benefit corporation - typically lower earners who could not afford early retirement - have often lost their health benefits when their companies have gone bankrupt.

Don Badie, 68, retired from Acme Steel in 1989 after 31 years of working on the furnace, with a pension of $22,000 a year. When Acme's pension plan failed in 2002, the government covered him in full. But at about that time, Mr. Badie went to pick up a prescription for his wife and found that she was no longer covered. His own bills are covered under a program for veterans and by Medicare.

Besides buying prescription drugs for his wife, he said, "I'm out of pocket $3,700 for a breast biopsy and

$700 for a CAT scan."

As a result, the Badies are eating cheaper foods and do not travel, Mr. Badie said. "Now I sit waiting for the hurricanes to blow through," he said from his home in Cape Coral, Fla.

"We had 260,000 steelworker retirees lose their health care," he added. "I was fortunate. A lot of people I know have had to go back to work. Most are at Publix, bagging groceries."

Mr. Paulsen, the retired trucking executive, has also gone back to work, starting an auto restoration company with one of his sons, who was laid off from his job as a mechanic at United Airlines. He hopes to sell most of his farm in the spring.

"We're not starving," Mr. Paulsen said. "But I anticipated that the pension would be there and I would not have to work."

He added: "I thought restoring cars was going to be my hobby in retirement. But now it's a business."

