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Pensions Face Huge Asset Gap

Plans Underfunded by Hundreds of Billions

By Albert B. Crenshaw
Washington Post Staff Writer
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More than 1,000 large private pension plans, many in the airline and steel industries, were underfunded by an aggregate of \$278.6 billion at the end of last year, the government's pension insurance agency said yesterday.

The figures are actually a slight improvement over the situation at the end of 2002, when underfunding stood at \$305.9 billion. But they stand in sharp contrast to 1999, when 166 plans were underfunded by a total of \$18.4 billion.

The underfunded plans had \$641.8 billion in assets to cover \$920.3 billion in liabilities, for an average funded ratio of less than 70 percent.

The airline and steel industries are major areas of underfunding, as they have been for some years, the Pension Benefit Guaranty Corp. said. The names of specific companies are protected from public disclosure by law, but the agency is allowed to give aggregate figures for industry sectors.

Among airlines, 11 companies showed a total of \$31 billion in underfunding in plans covering 444,000 participants. In steel, seven companies reported a total of \$6 billion in pension underfunding in plans covering 213,000 participants. Since the government insurance agency was set up in 1974, these two sectors have accounted for more than 70 percent of the claims against the program, while representing less than 5 percent of insured participants.

The figures are for plans with underfunding of \$50 million or more at the end of 2003. Those are required to report their status to the agency by April 15. If all underfunding were included, the total would be about \$350 billion, the agency said.

The pension agency insures about 31,000 private "defined benefit" pension plans. These are plans that promise a certain benefit at retirement, typically based on pay and years of service with the company. If the employer is unable to pay the promised benefits, the government steps in and pays them, up to certain limits.

The agency itself was \$11.2 billion in deficit at the end of last year.

In the past, the agency has waited until the end of the year to disclose the data on underfunded plans. But Executive Director Bradley D. Belt noted that the Bush administration is calling for increased disclosure of pension information. "Workers and investors have a right to know the financial status of pension plans. As part of any pension reform package, the information provided to PBGC should be publicly available," he said.

Such plans are in contrast to "defined contribution" plans, such as 401(k) plans, in which the company and/or employees contribute tax-preferred investment accounts and no specific benefit is promised. Those plans are not insured.

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