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PLANNING

Taking the Wheel Before a Pension Runs Into Trouble

By MARY WILLIAMS WALSH

UNTIL recently, a pension seemed like a sure thing. If you worked long enough, you could count on a predetermined stream of income upon retirement, backed by the federal government.

Now, however, a series of pension failures at companies like United Airlines, US Airways, Bethlehem Steel, Kaiser Aluminum and Polaroid has cast doubt over such certainties. While the government insures pensions, the coverage is limited - and it is much more varied than the government's insurance for bank deposits. In the last two years, tens of thousands of pilots, steelworkers, managers, mechanics and others have discovered that the pensions they earned were richer than the government's insurance - something that they did not know until their pension plans had failed.

Their misfortunes raise important questions for the millions of workers and retirees who participate in company pension plans: Who stands to lose when a plan fails? How big are losses likely to be? And, just as important: If you find that you are not fully insured, what can you do?

The answers ought to be readily available, given the stakes. But finding out whether your pension - or the pension of a spouse, sibling or parent - is fully insured can be a complex process.

For bank accounts, the Federal Deposit Insurance Corporation has a straightforward limit of $100,000. Depositors who have more than that can protect their funds by simply dividing their money between several institutions or account categories. But the federal Pension Benefit Guaranty Corporation's coverage depends on a person's age, the type of benefits promised and other factors generally beyond the control of a typical employee. The wide variations are mainly a result of efforts by Congress to make the system fair and to keep companies from ringing up big pension obligations and then dumping them on the government.

A basic rule of thumb is that the government covers benefits of up to about $45,000 a year for people

who retire at 65; this maximum rises each year with inflation.

But the guideline can be misleading: it is a little like saying that your homeowner's policy pays a maximum of $450,000 before you know if it covers floods, fires, theft or other losses, or if possessions like antiques are handled in some other way.

In reality, few people caught in a pension collapse happen to be 65 when their plan fails. For those who are younger, the maximum coverage is lower. For a 45-year-old whose plan fails this year, for example, the government covers a maximum of $11,403 a year, even if he has earned a larger pension. But for a 75-year-old, the government covers benefits of up to $138,665 a year. A list of the figures can be found at the Web site of the pension agency, www.pbgc.gov/news/press_releases/2004 /pr05_14.htm#chart.

Even these ceilings may be raised in some cases, thanks to a provision that shifts the remaining assets of a dying pension plan toward the oldest participants. Congress designed the insurance that way on the assumption that the oldest people would be least able to re-enter the work force and start building a new nest egg.

At US Airways, for example, hundreds of older pilots qualified for this special provision. They now receive, on average, $20,400 a year more than their "maximums."

On the other hand, some people do not get what the maximums seem to promise. The government covers only basic pension benefits, not certain supplements tacked on by employers. That coverage gap can be large.

How can you learn where your pension stands? The first step is to assess your company's financial health. A healthy business cannot just hand its pension obligations to the government and walk away. The company must be in bankruptcy to default on pension payments, and even then it must convince a federal bankruptcy judge that such a step is necessary.

Companies that issue bonds have credit ratings that can be checked at the public library or at www.nasdbondinfo.com, a Web site operated by the National Association of Securities Dealers. The rating does not directly assess the reliability of a company's pension plan, but it does provide an outside analyst's opinion of the company's ability to make good on its debts; the lower the rating, the greater the chance the company will not meet its obligations.

If the company's finances show signs of weakness, it makes sense to try to determine the strength of the pension fund. But that will probably mean a lot of paper chasing. Pension documents can be cryptic, and the ones that offer employees the most useful picture of the pension fund - annual plan reports filed with the Labor Department - are often at least two years old. The section called Schedule B: Actuarial Information is most relevant.

These reports may be obtained from the administrator of your company's pension plan, or from the

Office of Public Disclosure at the Labor Department, at (202) 693-8673. If you are not sure who administers your plan, your company's human resources department should be able to tell you.

The plan administrator should already be sending you a synopsis of the pension plan each year, in a document called a summary annual report. It contains a small part of the full filing to the Labor Department, but it is likely to be more up to date. The law also requires the administrator, upon request, to give all covered employees two additional documents: an individual benefit statement and a summary plan document, which explains the terms of the benefits.

Armed with these documents, you can calculate the benefit you have earned and whether it would exceed the federal insurance limits if the plan defaulted.

The benefit formula should be stated in the summary plan document; to calculate yours, plug in your current salary and years of service. Pension actuaries also forecast future benefits, such as the amount you can expect at the age of 65. The individual benefit statement will probably contain one or more such forecasts. But if you are worried about your plan's future, these forecasts are probably less important than the benefit you have earned so far. For a 45-year-old whose pension plan is unlikely to be around in 20 years, the age-65 benefit may not be relevant.

Suppose you are 65 and have earned a pension of $65,000 a year. It appears that $20,000 of it is at risk, because it exceeds the government's basic insurance cutoff. But you may qualify for one of the government's "preference categories," which could result in a higher level of coverage. The category that comes into play most often is for people who have already reached their plan's retirement age when the plan defaults, whether or not they have actually retired.

Being in the retirement-age category helped some US Airways pilots greatly. But that is not the case at every company. How much extra pension coverage you get, if any, depends on two factors beyond your control: the ages of all the people in your pension plan and how much money happens to be in the fund on the day it fails.

The amounts in defunct plans can vary significantly. When the US Airways plan failed, the pension insurance agency found that the plan had about 33 cents for every dollar promised to the pilots. The plan at Bethlehem Steel was somewhat stronger, with 45 cents for every dollar owed. The plan for salaried workers at Kaiser Aluminum was all the way down to 21 cents for each promised dollar.

Congress wanted a fund's remaining money to go first to workers who had reached retirement age. If your company has a relatively young work force, whatever extra money is available will be shared by a small group of retirement-age workers, and each of them will get more, up to their earned benefit. That was the case at US Airways, where only 864 pilots were of retirement age, out of more than 6,000 pilots in the pension plan.

The retirement-age group at Bethlehem Steel was not so lucky. Their plan was more sound, but because

the work force was older, with retirees outnumbering active workers by more than three to one, the leftover money had to be divided among thousands of people.

For about 8,500 Bethlehem Steel retirees, there was another piece of bad news: the company sweetened their benefits shortly before the plan terminated, by promising supplementary features that the government did not cover. These retirees' average pension payment was about $2,000 a month just before the plan was taken over by the government at the end of 2002. Their average benefit was reduced to about $1,500 a month.

After a pension fund fails, workers and retirees can do little to protect themselves. But if it is still alive and going downhill, some steps can be taken. A union, for example, can try to negotiate a larger company contribution to the pension fund in lieu of a big pay increase. And if you think you have already earned a larger pension than the government insurance would cover, you may even want to consider changing jobs - provided, of course, that the new employer is taking good care of its own plan.

Informed workers "will either move on or they'll pressure their employer to more adequately fund the underfunded pension plans," Labor Secretary Elaine L. Chao said in a recent speech in which she called for more pension disclosure. Ms. Chao is also the chairman of the Pension Benefit Guaranty Corporation.

In any case, if you can't count on your pension, you may really want to take matters into your own hands - by starting to save more of your paycheck.

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