The pension plan crisis

The secure pension is a thing of the past, thanks to Paul Volcker's double-digit interest rates.

Over ten years ago, Lyndon La-Rouche, who has declared his candidacy for the Democratic nomination for President in 1988, warned workers, "Don't worry so much about your pension plans, by the time you come to collect them there won't be any." LaRouche correctly foresaw that debt-strapped U.S. corporations would not be able to resist the temptation to raid their pension funds for necessary operating liquidity.

In the current year, private corporations have withdrawn $3.2 billion from their private pension plans, up from a mere $18 million in 1980. The major jump in withdrawals from pension plans took place in 1983, when the total reached $1.6 billion and continued to $2.8 billion in 1984. This huge increase took place at just the time when corporations were assuming huge new corporate debt.

An article on pension plan withdrawals in the *New York Times* points out that one of the great pressures for redemptions was the mergers-and-acquisitions craze of the last two years. "Corporate raiders started stalking companies with overflowing funds. That prompted some companies to 'raid' their own pension treasuries in order to dodge takeovers." In short, corporate treasurers undertook to loot their plans before outsiders could do so.

The *Times* pretends that the reason for this raiding is that pension funds are currently overfunded. In fact, there is a vast overpricing of the equities held by the pension plans. Ironically, the reason for this boom is the double-digit interest rates, which wrecked the financial viability of the very companies that in turn raided their pension plans for operating cash. But if the markets are booming now, a much-needed drop in interest rates would release a speculative outflow from dollar-denominated equities, leaving the pension plans depleted.

But it is not the case that the main problem is overfunding. A growing number of major companies have suspended payments into their pension plan, and others are seriously in arrears. For example, LTV Corp. currently owes its pension plan $800 million. The Pension Benefit Guarantee Corp., the federal regulator of private pension plans, is considering terminating the plan, which would be the largest involuntary termination in history. The PBGC is suing to prevent Wheeling-Pittsburgh from dumping its plan into the lap of the insurers, for that would mean a new obligation of $450 million for the PBGC, which already faces a deficit of $1 billion. Wheeling-Pittsburgh is in bankruptcy and its creditor banks have demanded that it terminate its support for the pension plan. Allis-Chalmers, the farm machine manufacturer, has already suspended payments, claiming hardship, and leaving $165 million in unfunded claims.

Other blue-chip corporations which are in arrears include Pan American, American Motors, Chrysler, Bethlehem Steel, and General Motors. In each of these cases the unfunded liability is in excess of $100 million.

Needless to say, the Pension Benefit Guarantee Corp., created by Congress in the 1970s, finds itself totally overwhelmed by the crisis. It has turned to the Congress for relief. It is asking that the premium to insure private pension plans be raised from a current $2.60 to $8.10 per employee. The PBGC insures 38 million ees or retirees.

What all of this points to is that the nation is heading toward a major tragedy. The real victims are the blue-collar and white-collar workers who have been paying into pension plans all their working lives in the expectation that there would be a safe and secure future for them in retirement. All of sudden, the companies for whom they worked stopped paying and changed the terms of the plan.

For example, the plan for United Airlines employees called for periodic increases to keep pace with the cost of living. Then, during the last pilots' strike, the company turned the pension plan over to an insurance company, and decided to withdraw $1 billion in so-called excess benefits. The result was that retirees suddenly received a fixed income like an annuity. Although the original pension plan had been drawn up through collective bargaining, the decision to alter it had been unilateral. United helped itself to assets it presumably held in trust for its employees, and used the funds to buy Pan Am's Pacific air routes and 737s from Frontier.

Like so many other sure things of the past, the secure pension no longer functions. It has gone the way of constant dollars, a decent parity plan for farmers, and basic, sound education for our children. Many, many people are learning to listen when LaRouche talks.