

United Case Warns: All U.S. Pensions Bankrupt

by Anita Gallagher

A U.S. Bankruptcy Court's May 10 decision to allow United Airlines to dump its pensions onto the Pension Benefit Guaranty Corporation (PBGC)—termed “a political earthquake” by Democratic economist Lyndon LaRouche—shows that the “defined benefit” pensions of 44 million American workers still fortunate enough to have one, can and will disappear, unless LaRouche's measures are enacted by the U.S. Congress.

The airline sector's pensions are \$31 billion underfunded on a termination basis, \$9 billion of which has already been dumped on a PBGC which is \$23 billion in deficit, largely from the collapse of the nation's steel manufacturing sector. The looming bankruptcy of the entire auto sector if Congress fails to act, will dump several times more debt on the PBGC. This will end any private pension security in America. It was said that retirement security had three legs: Social Security, private savings and pensions. The disappearance of savings and pensions shows Americans would be insane to allow Bush to destroy Social Security—the only leg still solid.

The pension funding deficit of General Motors alone, in the event of (bankruptcy) termination, was about \$47 billion at the end of its 2003 fiscal year, according to the assumptions of the PBGC; and of Ford Motor Company, \$22 billion, by the same worst-case assumptions. Many auto suppliers, like Visteon, Delphi, and others, would add to that their own hugely underfunded plans. To prevent this catastrophe, LaRouche drafted an emergency memo to the U.S. Congress on May 14: “Congress Faces New Turn: On the Subject of Strategic Bankruptcy.” It sets out guidelines of action now, to deal with bankruptcies which have wiped out whole categories of the republic's essential industry, which he terms “a state of strategic bankruptcy.” The U.S. Congress must take these steps, because the American Presidency is currently occupied by an idiot, LaRouche emphasized.

***EIR* Told You Six Months Ago**

This news service, founded by LaRouche, the world's leading economist, reported the headline stories of this looming disaster mid-May, more than six months ago. The Dec. 10, 2004 *EIR* published, “Vanishing American Pension Foretells Bush Social Security Gameplan.” Pension solvency had been wrecked in the stock market from 2000-2002, the article reported, and George Bush was pushing the same plan for Social Security, privatization. *EIR* reported in December that the PBGC could never handle the coming air and auto pension

defaults—only reindustrialization of the U.S. could. On Feb. 4, 2005, in “Private Pensions Crisis Warns, ‘Don’t Privatize Social Security,’ ” *EIR* warned again that the airline sector was going under, and would dump its pensions on the PBGC. LaRouche’s August 2004 campaign pamphlet, *It’s the Physical Economy, Stupid!* was the only solution on the table.

There are two “strategic bankruptcy” issues posed by the bankruptcy of United and U.S. Airways, and their pension defaults onto the PBGC. The first is the two-years-plus bankruptcy of those two of the nation’s six major, non-budget airlines, and the near-bankruptcy of the other four—Delta, Northwest, American, and Continental. There is no possibility that United and U.S. Airways can exit bankruptcy through cost-cutting alone, nor is there any possibility the other airlines, near-bankrupt and still paying pensions, can avoid it through more “cost-saving.” But the routes of these six non-budget airlines comprise the essential part of the nation’s air transportation grid, and the sector whose demand anchors the machine-tool capacity associated with the aircraft and related sectors of industry. LaRouche calls the looming loss of air transport, a “strategic bankruptcy.”

What has caused the airline bankruptcies? Above all, LaRouche has stressed, the “effects of airline deregulation, which was one of the key items on the agenda of practice of the 1977-1981 Carter Administration’s submission to the Trilateral Commission’s ruinous, multi-faceted program of deregulation.” An average airline ticket today costs half as much, in real dollars, as it did in 1978! It is a measure of today’s prevailing economic illiteracy, that only LaRouche has called for the re-regulation of the airline industry.

Since 2001, add in record-high fuel prices; matching record-low fares from flying “Wal-Marts” like Southwest and Jet Blue; and higher security costs. Airline fuel costs are now between 67-75% higher than in 2003, and budget airlines have produced the lowest air fares ever. Delta reported, along with its \$1.1 billion first-quarter loss, that if it can’t restructure its loans, it will be forced to file for Chapter 11. Delta lost \$5.2 billion in 2004, seven times its 2003 loss of \$773 million; its pension underfunding is huge. Northwest lost \$878 million in 2004, nearly four times its 2003 loss of \$236 million. Continental lost \$363 million in 2004, compared to a \$38 million profit in 2003. And American Airlines, the world’s largest since taking over TWA after its bankruptcy, lost \$761 million in 2004, after its whopping \$1.2 billion loss of 2003.

The second issue posed: “The combined effect of the chain-reaction financial collapse of the national automobile manufacturing and air-transport sectors, is the presently accelerating threat of dumping of pension obligations of both the airlines and automobile industries, suddenly, on the Federal Pension Benefit Guaranty Corporation. Without novel measures of government intervention, this presently threatened development would mean a wrecking of . . . private pensions, leaving the completely Federal Social Security system as virtually the only pension system for the lower eighty per-centiles, or more, of the population as a whole. The implica-

TABLE 1

Employees’ Pension Losses in United Airlines Pension Takeover by PBGC

Active Employees	Average Loss of Benefits	Retired Employees	Average Loss of Benefits
Pilots	36%	Pilots	34%
Flight Attendants	39%	Flight Attendants	1%
Mechanics	48%	Mechanics	20%
Ramp Workers	59%	Ramp Workers	19%
Public Contact Employees	55%	Public Contact Employees	2%

Source: Rep. George Miller’s website.

tion of such a set of combined and related developments would also have to be classed as a case of ‘strategic bankruptcy.’ ”

Pension Panic

After the May 10 United Airlines default, the largest ever in the PBGC’s history, press, political and labor leaders were all, as the *Wall Street Journal* put it, “[A]sking the question of paramount importance to anyone with a retirement plan: Could this happen to me? The short answer is yes.” At May 13 hearings held by the Senate Democratic Policy Committee, expert witness Prof. J. Bradford DeLong said the UAL default “means the end of the employer-sponsored defined benefit pension plans.”

The American labor movement established private pensions by using President Franklin Roosevelt’s 1935 Social Security legislation as a beachhead, to win contracts which included private, employer-funded pensions for unionized workers. These pensions, with defined benefits specified in advance, became generalized among Americans after World War II. Before that, most Americans worked from childhood to grave, and the elderly were the poorest segment of the population.

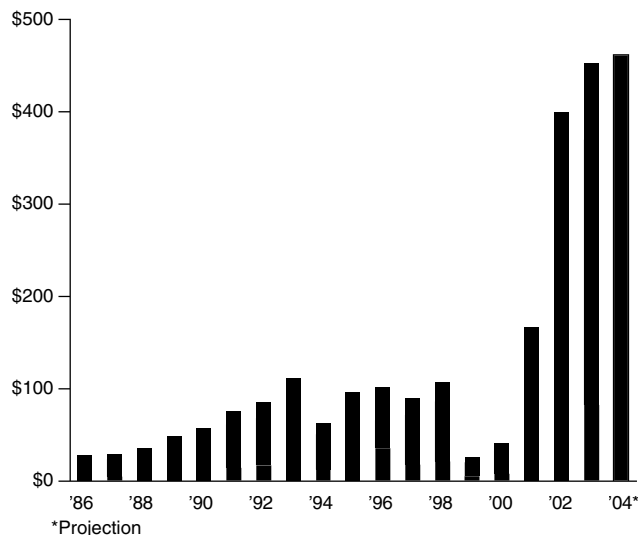
Today, only 50% of America’s private-sector workforce is covered by any kind of savings plan. And the number of private employers who offer “defined-benefit” pensions—the superior type which guarantees a monthly benefit from retirement to the end of the retiree’s life, or even the life of a spouse—has fallen from 112,000 in the mid-1980s, to only 31,000 today; the U.S. is losing about 1,000 of these plans a year. And according to the 2003 Retirement Study of Towers Perrin consultants, 25% of the existing plans were “frozen” by 2003; that is, either closed to new employees, or allowing no further benefit accruals.

Over the past 20 years of “prosperity,” private employers have exited defined-benefit plans *en masse* to cut costs, or converted them to the less valuable “cash balance” type, where workers’ pensions are calculated on a wage period

FIGURE 1

Total Underfunding of Federally Insured Employer Pension Plans

(\$ Billions)



Source: PBGC presentation.

which does not represent their top earnings. The trend out of defined-benefit plans turned to a stampede after the 2000-2002 implosion of the telecom bubble, with the Greenspan Fed's stupid policy of low short-term interest rates. Employers turned to the less valuable "defined-contribution" plans, such as 401(k) plans, where the employee takes all the risk of generating future earnings.

How have holders of personal IRA investment accounts fared in recent years? A full one-third of the employees surveyed by Towers Perrin in 2003 said they now plan to work years longer than they had intended, because of investment losses.

Who Will Save the PBGC?

The PBGC dropped a bombshell six months ago, announcing a net loss of \$12.1 billion for Fiscal Year 2004, which more than doubled its deficit to \$23.2 billion. Although Executive Director Brad Belt said at the time, "The PBGC is committed to protecting pension benefits, and with \$39 billion in assets, we can continue to meet our obligations for a number of years," Belt testified to the Senate Committee on Health, Education and the Workforce on April 26, about a "reasonably possible" PBGC exposure to \$96 billion in underfunded pensions from "troubled industries"—more than double its assets.

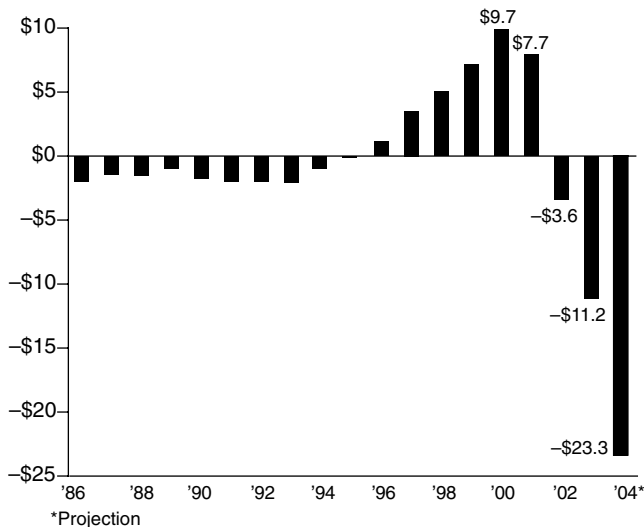
The magnitude of the deficits these corporate pension plans have fallen into, is determined above all by assumptions—and policy actions—on the future of the U.S. economy. A company's accountants try to determine how the

FIGURE 2

Net Position of the Pension Benefit Guaranty Corporation

(Assets Minus Liabilities)

(\$ Billions)



Source: PBGC presentation.

assets in its pension funds stack up now, against pension payments that will be made to thousands of employees over 40-50 future years. The biggest factor is what they assume will be the long-term rate of return—on those assets and on the year-by-year additions the company is supposed to make to those assets. Through the 1990s, big employers ignored the productive economy's decline and assumed, in their reports to the Department of Labor, fantasy rates of return of 9-10% and more for the future, although they weren't making those returns in the present. They even counted these imaginary pension-fund super-returns in their corporate profits!

The 1998 and 2000-02 stock market collapses, combined with Greenspan's incompetent policy of virtual-zero interest rates on bonds, ended that. The funds lost money and shrank; the PBGC itself had shifted "exuberantly" from bonds to stocks, and lost money. The companies stopped counting imaginary *present* returns of their pension funds. But for the future, they're still assuming 6-8% rates of return over the long run—as if the U.S. economy were not sinking—right up until they go bankrupt. The PBGC, however, assumes a pessimistic 4% long-term rate of return (including inflation) when taking over any bankrupt employer's pension obligations. That "termination basis" assumption is a direct result of the Greenspan Fed's failed low-interest-rate policies, and it produces a PBGC calculation of a very large, multi-billion-dollar deficit of that pension fund. Unions and members of Congress object to that calculation: But changing it, is really a matter of fundamentally dumping free-trade, globalization economic policy, and putting real productive value behind

the pension fund investments.

In 2004, the PBGC was paying benefits to 1.1 million people, which totalled \$3 billion. It was created by the Employee Retirement Income Security Act of 1974 (ERISA), to insure defined-benefit pension plans up to a limit. The current maximum payment is \$45,613/year. The PBGC receives no tax revenues; its funds come from insurance premiums paid by employers offering “defined benefit” plans, and investment returns from those premiums.

The Bush Administration’s planned legislative “reform” of the pension system, with much higher PBGC premiums and accelerated “catch-up” on underfunding, have been denounced by both corporations struggling to stave off bankruptcy, and labor. Even the pro-Bush National Association of Manufacturers panned the Bush plan, as one designed to save the PBGC from a taxpayer bailout rather than save the pensions.

“The PBGC was never set up to absorb the collapse of the entire U.S. industrial sector,” said one Congressional pension expert. But the industrial collapse and the pension crisis can be solved by Congress, LaRouche says: “If we decide on the re-industrialization, re-regulation route to national survival, the task of the Congress is to create the authorization for special agencies dedicated to managing the transition for otherwise doomed entities fallen into bankruptcy.”

The United “earthquake” has made pensions a live issue on Capitol Hill. On May 10, Rep. George Miller (D-Calif.), ranking Democrat on the Committee on Education and the Workforce, introduced legislation to stop bankrupt companies from dumping their pensions on the PBGC for a six-month period starting May 1—that is, including the United case. Miller said, “The stakes for 120,000 United Airlines employees and retirees are very high”—they face an average 25-50% cut in their benefits, if PBGC simply drops \$3.2 billion out of United’s \$9.8 billion in pension obligations, because they exceed the amount guaranteed by the PBGC. Rep. Miller has also released a May 18 letter to PBGC Executive Director Belt questioning why the PBGC took over the United Flight Attendants’ pension plan, when Belt himself on April 5 opposed terminating it, because it appeared solvent. Miller warned that the PBGC’s takeover of a solvent plan, “could very well spark an industry-wide rush” to dump all plans.

“Congress is not going to stand by while United employees lose \$3.2 billion of their contracted retirement pensions,” said a Congressional aide. “The purpose of the six-month moratorium in this bill is to put a stop to that, while Congress deliberates on what can be done to solve the overall problem. We think that otherwise it’s going to spread to the other airlines, and to the auto companies.” The bill applies to any company with \$1 billion or more of pension underfunding. Miller has also introduced a companion bill that links executive pensions to employee pensions, as a matter of equity. The legislation for a six-month moratorium on PBGC pension takeovers, H.R. 2327, already has 49 Democratic and Republican sponsors in the House.