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ECONOMIC VIEWPOINT

The Great American Pension-Fund Robbery

America's corporate pension system is said to be facing a perfect storm: Equities have taken a big hit (they are still way off their highs), and returns on bonds have plummeted, leaving pension funds with reduced earnings to pay benefits. In addition, corporate downsizing and lengthening life spans have left many companies, particularly in manufacturing, with a rising ratio of retirees to active workers. U.S. Treasury Under Secretary Peter R. Fisher has testified that pensions are underfunded by $300 billion -- far exceeding the resources of the government's Pension Benefit Guarantee Corp.

But if pensions are under water, the cause is less a perfect storm than a leaky boat ravaged by pirates. For more than a decade, corporate sponsors of pension plans have been systematically looting them. The great pension raid is of a piece with the other accounting deceptions of the 1990s, and it had the same motivation -- to boost reported earnings and stock prices.

Since the 1980s, many corporations have shifted from traditional defined-benefit plans to defined-contribution plans such as 401(k)s, which cap the company's liability and shift the risk to workers and retirees. But that shift is only the most visible part of the story. As of yearend 2002, some 42 million workers and retirees and $1.6 trillion dollars were still in traditional pension plans -- and these have been raided.

Among the favorite gimmicks for creative theft of pension assets:

-- Project an unrealistically high rate of return and claim that the plan is overfunded. Then reduce contributions to the plan and divert the plan's assets to fattening the bottom line. This maneuver allowed corporations to hype reported earnings by 10% to 15% during the 1990s, which in turn contributed to the same stock market bubble that supposedly justified the inflated rate of return. When the bubble burst, pension plans found themselves underfunded.

-- Convert from conventional plans to "cash-balance plans." This was invented by Bank of America in 1985 and widely imitated. Terminating a pension plan results in a large tax penalty, so consultants invented a hybrid that quacks like a 401(k) but doesn't trigger the penalty. The Internal Revenue Service went along with the fiction that a cash-balance plan, which reduces payouts, is not really a termination of the plan. The conversion creates imaginary individual accounts that pay a set rate of return. Companies then book their projected future savings as current earnings, thanks to a bizarre determination by the Financial Accounting Standards Board. On July 31, in response to a lawsuit by IBM workers, a federal judge ruled that such conversions constitute illegal age discrimination.

-- Redefine employees as independent contractors. In 2001, Allstate Corp., which had long distinguished itself by having an employee sales force with good benefits, converted some 6,400 longtime employees to independent contractors, shortchanging their pensions.

-- Sell off units that have older employees, who then lose their pension benefits. This sweetens the value of the deal. In

1998, Halliburton Co. acquired Dresser Industries Inc., then spun off its Dresser-Rand unit in 1999. Workers found themselves with pension benefits reduced by an estimated $25 million. (Dick Cheney got a generous severance and retirement package when he left, however).

-- Declare bankruptcy, but set up a special bankruptcy-proof pension plan for top executives as an off-the-books trust. Unlike a "qualified" pension plan, which produces tax breaks for the company, these special executive plans are funded in aftertax dollars that would otherwise go to shareholders. Enron Corp. did this. Last April, American Airlines Inc. tried it -- but relented and had to sacrifice Donald J. Carty, CEO of American parent AMR, after its unions went ballistic. In a bankruptcy, of course, employees can lose some or all benefits.

Once, pension plans were intended to induce loyalty and long service in workers. Now, big corporations and their executives seem to care about only one category of worker -- top managers, who loot the plans while protecting their own assets. Ordinary long-tenured employees are deemed liabilities.

The remedy for depleted pension funds is much tougher regulation. But the Bush Administration wants to weaken anti-discrimination rules to make it even easier for top executives to have one set of rules for employees and another for themselves. To solve the underfunding problem, the government should be forcing companies to disgorge money that was improperly diverted from plans to corporate bottom lines, thus making the plans whole. Instead, the Administration wants to allow companies to use more liberal accounting assumptions about rates of return.

It's fine to have an Administration that prides itself on being pro-business. But don't the tens of millions of employees who loyally serve Corporate America also count as part of business? Shouldn't their pensions be protected as well?

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