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## Retired From G.M. at 54. Pensionless at 74?

By [MARY WILLIAMS WALSH](#)

[General Motors](#) is using its huge pension fund in a way it never intended.

It had planned — and put money aside — for a steady march of retirees over time. But instead, tens of thousands of blue-collar workers, most in their 40s and 50s, are all becoming eligible for retirement benefits now, as the company rapidly downsizes.

And even as its pension fund faces this giant bulge in payouts, G.M. is not putting any new money in — the company is not required to make any contributions to the fund until 2013.

The longer this goes on, the weaker the fund will be and the more uncertain its long-term viability.

For now, the pension payments to its younger “retirees,” part of a deal G.M. negotiated with the [United Automobile Workers](#) union in 2007, allow the company to drastically shrink its work force without having to come up with the cash to pay severance. The payments also relieve some of the burden on social service programs in the countless factory towns and counties around the country with large numbers of G.M.’s newly jobless.

“G.M. basically raided the pension plan, by having a lot of these severance benefits paid through it,” said Douglas J. Elliott, a fellow with the [Brookings Institution](#) who specializes in financial institutions and policy.

What G.M. has done is perfectly legal. Nor is this the first time an employer has used a pension fund to pay for pruning its ranks. Well-subsidized early retirements are a time-honored practice in the public sector, where teachers often retire after 30 years and police officers can sometimes claim rich pensions after working as few as 20 years. Many corporations once offered sweetened pensions to people in their 50s and early 60s as well, but they have generally stopped the practice because it locked them into making payments indefinitely.

G.M. never stopped. To the contrary. The question now is whether the plan will run short of money and what effect that might have on the company, its workers and retirees, and the federal government, which insures pensions and is now G.M.’s majority owner.

In the short term, G.M.’s newly minted retirees, those in their 40s and 50s, have the most to lose if the plan is rapidly depleted and fails. But over time, the risk will shift to the government and the dwindling number of active U.A.W. workers still building cars at G.M. For those workers, a secure pension is already becoming an increasingly distant dream.

“They could find that they don’t get their full pensions when they retire, because the plan has had to be terminated because of the payments to current retirees,” Mr. Elliott said. “There are definitely these intergenerational transfer issues with underfunded pensions.”

G.M. declined to discuss the situation, although it has said it intends to keep the plan going when it emerges from bankruptcy.

For decades, G.M.’s blue-collar workers have earned pensions with two components. The first is the “basic benefit,” currently about \$1,590 a month, or \$19,000 a year, for an auto worker with 30 years’ service. The U.A.W. won this “30-and-out pension” after a strike at G.M. in 1970, and still considers it something close to an inalienable right. In a 30-and-out plan, someone can go to work at 18, work nonstop for 30 years and retire at 48.

The second part is a supplement, worth what each worker’s [Social Security](#) benefit will be on the earliest date he or she can start drawing the benefits, currently age 62. (Even then, the workers are joining Social Security three years early, so they qualify for just 80 percent of the full benefits they would get at 65.)

Even in the days when G.M. was healthy, years ago, most of its 30-and-out retirees were too young to qualify for Social Security. The supplements were supposed to make up the difference until the retiree became eligible for Social Security.

The total dollar amounts are not eye-popping. Unlike many pension plans in the public sector, G.M.’s U.A.W. plan cannot be “spiked” by working insane amounts of overtime just before retirement. Nor is it indexed for inflation.

“What we’re getting isn’t enough to live on,” said Dwayne Humphries, a 54-year-old G.M. retiree in Arlington, Tex., who completed his 30 years last year, retired, and is now getting the standard \$3,150 a month, or \$37,500 a year. Roughly half of the total, \$19,000 a year, is the basic benefit. The rest duplicates Social Security.

“It’s tight,” said Mr. Humphries, who was earning \$50,000 to \$60,000 a year before his retirement. “It takes a different way of living than what you were used to.”

To make ends meet, he helps out with his son’s small business, cleaning swimming pools.

When a G.M. retiree turns 62, he joins Social Security, and the pension fund stops paying him the supplement. So eight years from now, Mr. Humphries will still be getting \$37,500 a year, but only about \$19,000 will come from the G.M. pension fund. The rest will come from Social Security.

That will greatly lighten the load on the pension fund. But thousands of G.M. workers have taken early retirement in the last few years, and each of those workers’ total benefits come from the fund. So while the benefits may seem inadequate to individual workers like Mr. Humphries, they add up to hundreds of millions of dollars being pulled out of the fund every year.

When a reorganization began to loom at G.M., in 2007, the company faced the choice of offering people cash buyouts or sweetening their pensions, letting them collect their 30-and-out benefits even if they had not yet

worked the requisite 30 years.

Mr. Elliott called the decision “a no-brainer,” thanks to the federal rules for funding pensions.

“When you have an increase in benefits in a pension plan, you’re given quite a number of years to fund the increase,” he said. “So by doing it through the pension plan, they could defer paying any cash for this for years.”

How long the fund can sustain this is a mystery. G.M.’s financial reports combine the U.A.W. pension plan with the company’s other big plan, for salaried employees. (It was frozen in 2006 and cannot undergo a sudden increase in benefits.) The U.A.W. plan’s own annual reports, on file with the Labor Department, provide no fresh financial information because they stop at 2006.

At that point, the fund had roughly \$67 billion in assets — more than enough to cover the \$59 billion in benefits it had promised to pay. The plan was then paying out a little more than \$5 billion a year to retirees.

Now the assets are almost sure to be smaller, thanks to the market losses of 2008 and the growing payouts. “My guess is, they can probably go for 20 years before they run out of cash,” Mr. Elliott said. That may sound like a long time, but with so many retirees and spouses still in their 50s, the plan needs resources for at least 50 years.

“If you’re supposed to be paying people for 50 years, it’s actually not that comforting that they have enough cash to pay people for 20,” Mr. Elliott said.

The Pension Benefit Guaranty Corporation declined to comment, but officials there have long worried privately that the collapse of one big automaker pension plan would be the end of the whole federal system of insuring pensions.

Normally, federal law would require G.M. to put fresh money into the pension fund. But G.M. has not had to make any contributions since 2003, when it issued bonds and put the proceeds — \$15.2 billion — into the fund. That was more than the required amount, and the pension law allows companies that make bigger-than-required contributions to use the excess to offset the contributions they will owe in subsequent years.

That, and earlier contributions, are allowing G.M. to halt contributions until 2013. By then, the plan may have a significant shortfall. The law gives G.M. seven years to catch up, which could be difficult if the company is not performing well.

Ron Gebhardtshauer, head of the actuarial science program at [Pennsylvania State University](#), said G.M. and its government stewards could reduce the risk by raising the retirement age in the future.

“They’re a bankrupt company and they shouldn’t be giving overly generous benefits,” he said. “It’s sort of like the banks giving out bonuses when they’re not profitable.”

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