Domestic Credit by EIR Staff

Pension guarantor is bankrupt

The chickens are dragged kicking home to roost at the doorstep of Congress.

The Pension Benefit Guaranty Corporation persuaded a federal judge on Jan. 13 to compel it to take over billions in dollars of LTV Steel pension liabilities, and then announced its forthcoming bankruptcy at a Jan. 14 press conference. That presents Congress with a demand for yet another multi-billion-dollar bailout of a federal agency, following the collapse of the Farm Credit System, and preceding the collapse of the federally supported mortgage guarantee agencies.

All this is theater, according to a script written by Wall Street investment houses last year: The PBGC's demonstration of empty pockets is to provoke Congress to toughen the rules for further bailouts of bankrupt private pension funds.

The PBGC currently charges employers an annual fee of $8.50 per employee to fund the pension insurance system. Even assuming the agency does not have to take over any more major pension funds, the combination of old obligations and the new LTV liabilities would mean the agency would run out of money in 10 years.

The guarantor's executive director, Kathleen Utgoff, told the press, "Now is the time to take the necessary steps to prevent the financial collapse of the nation's insurance system. Our annual payments just for LTV's retirees will exceed our annual premium income. We need to raise more money to keep the promises that we have already made, and we need to make changes in the law so that terminations of this magnitude do not occur in the future. The current structure of the pension system encourages companies that get into trouble to underfund their pension plans."

The government was forced by law on Jan. 13 to take over LTV's pension plans, after the steelmaker failed to make minimum payments on existing pension plans.

"We're $4 billion in deficit," Labor Secretary William Brock told wire services. "That debt is not sustainable. We can't do that."

In fact, brokerage-house analysts had this scenario prefigured last May. LTV jumped the gun in the race among the leading steelmakers to seek bankruptcy protection, or asset-stripping buyouts, on relatively favorable terms. The name of the game is unloading pension-fund liabilities onto the federal government first, and LTV succeeded.

The brokerage house Oppenheimer and Co. had already warned Sept. 11, "Unfortunately, integrated steelmakers have experienced difficult volume, price cost, and earnings conditions for the past five years. . . . The likelihood of successful steel industry reorganizations, whether achieved through bankruptcy, employee-ownership, or other changes in ownership, has been diminished due to recent legislation and court rulings strengthening the rights of labor unions during bankruptcy proceedings. . . . In addition, we expect the ability of companies to terminate their pension plans and transfer large liabilities to the Pension Benefit Guaranty Corporation will be greatly reduced by future legislation, as such practice would exhaust the PBGC's assets and is viewed very adversely by policymakers. Thus, the ease with which steel companies can be restructured is diminishing. Over the past decade, several prominent reorganizations, such as Penn Central, for example, have been successfully effected and bankruptcy investing has become stylish on Wall Street. Unfortunately, the rules of the game are being changed, and investors are less protected under the changes we envision.

"We are not optimistic about the prospects for steel industry reorganization," Oppenheimer continued. "We expect several publicly held or private steel companies to go through financial reorganization for a second or a third time over the next five years. To date only one company, Continental Steel, has sought protection from creditors more than once. . . . We are not optimistic about the prospects for steel industry reorganization."

The $236 million of LTV's unfunded liabilities which the pension agency had already assumed in September, plus the additional $336 million which LTV has already demanded it assume, exhausted the agency's assets. Rather than allow the steel companies to dump enough pension liabilities onto the unfortunate PBGC to force Congress to put money in directly, legislators will more likely take legislative precautions against this. The problem is that the steel industry really is going under.

That is why the steel industry decided to preempt the situation, in consultation with the administration, by provoking the longest strike (read: lockout) in the industry's history, preparatory to massive reductions in employment and capacity.