America's pension funds are in jeopardy

by John Hoefle

The U.S. private pension system has been seriously jeopardized by a combination of economic collapse and insider abuse, threatening the retirement plans and standard of living of millions of Americans. The money that many workers have set aside for their retirement will not be there when they need it.

There are some 872,000 private pension plans in the United States today, covering 76 million retired and current workers, with reported assets of about $2 trillion dollars. What percentage of those assets actually exists is not known, due to the lack of regulatory oversight over private pension plans. While the Pension Welfare Benefits Administration of the U.S. Department of Labor has the responsibility for enforcing pension laws, it has a mere 300 inspectors, or one for every 2,900 pension plans.

In 1989 the Labor Department has audited only 1,553 private pension plans, less than 0.2% of the total, and found that 492 of them—almost one-third of those scrutinized in 1989—were violating the law in some manner. Among pension plans audited between 1985 and 1987, violations were found in one out of four. Were full-scale audits of all of the nation's private pension funds to be made, the results would be staggering.

Many of these violations are serious. Raymond Maria, the Labor Department's Acting Inspector General, recently told the Associated Press, "There's an insidious and steady siphoning off, which ultimately affects employees. I am convinced there is substantial fraud and abuse, the extent of which no one knows." Maria wants to force the private accountants who audit the pension plans each year, to report any prohibited transactions directly to the Department of Labor. But the best way to avoid fraud and embezzlement, he said, is to throw more of the violators in jail, rather than merely fining them.

Maria's office investigated 168 pension and welfare plans in late 1987, and found $18.7 million in misused plan assets and administrative violations. The survey grew out of the I.G.'s Office of Labor Racketeering, which deals mostly with unions. "Through the labor unions we learned a lot about schemes," Maria said. "Kickbacks, embezzlement, conflicts of interests and other criminal violations were also occurring in single-employer benefit plans. A new breed of racketeers could be found in the ranks of attorneys, accountants and service providers."

How much of this represents actual crime, and how much represents the government's attempt to find scapegoats for its own failed economic policies, remains to be seen.

Insurance deficit

The Pension Benefit Guaranty Corporation is the quasi-government agency responsible for insuring the nation's private pension plans. It was created by ERISA, the Employee Retirement Income Securities Act of 1974, and was modeled after the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation, which insured deposits at the nation's banks and thrifts.

The comparison to deposit insurance is quite apt, as many observers think that the PBGC will collapse even more spectacularly than did the FSLIC. The PBGC lost $1.5 billion in 1988, and a 1987 study by the Government Accounting Office predicted that the pension insurance agency would be insolvent by the year 2001.

"If they go bust, the taxpayer picks up the bill—just like the S&Ls," said Joe McGowan of the Labor Department Inspector General's office.

The bulk of the PBGC's losses thus far have come from the beleaguered steel industry, with the LTV bankruptcy and pension plan termination a case in point. That deficit could double, however, if the major airlines now in financial difficulty have to be bailed out, according to PBGC Executive Director James Lockhart.

Even if the Pension Benefit Guaranty Corporation were to remain solvent and meet all of its obligations—a highly dubious supposition—it would still fall far short of protecting the nation's pensioners. The PBGC guarantees only 107,000 private pension plans, covering some 40 million participants, which means that 765,000 pension plans, covering 36 million participants, are not insured at all.

Leveraged blow-outs

One of the more outrageous uses of pension money is the funding of leveraged buyouts, which are notorious for throwing workers at the targeted companies out of work. According to a study by the Government Accounting Office, four out of every ten companies taken over in leveraged buyouts have terminated their employee pension plans, and used the "surplus" funds to pay down their debt.

Aside from the blatant immorality of using workers' pension funds to throw other workers out of their jobs, the lending of pension funds for leveraged buyouts is quite risky financially. At the end of 1987, the nation's public and private pension funds owned 15% of the nation's junk bonds, worth a reputed $18 billion. As the recent junk bond collapse conclusively demonstrates, those bonds are worth far less than their nominal value, hitting the already weakened pension funds which bought them with major losses.

The pension fund crisis is a time bomb, the explosion of which will dwarf the savings and loan crisis.