

Pension Uncertainties Vex Retirees

By David McNaughton, The Atlanta Journal-Constitution Knight Ridder/Tribune Business News

Feb. 29 - The pension crisis in America is enough to give retirees gray hair.

While Congress struggles to complete a temporary fix, Walter Ehmer and Jim Gray sweat about getting all the retirement benefits they were promised.

"Companies are trying to get out of their responsibilities," said Ehmer, pointing to employer-supported legislation that would reduce pension funding.

Ehmer, retired from Lucent Technologies, and Gray, a former Delta pilot, represent the human side of a debate that largely has focused on the big picture: a troubled pension system and financially strapped employers.

The system is in trouble because the stock market's decline from early 2000 to early 2003 reduced the value of pension fund investments used to pay benefits.

At the same time, there was a drop in the interest rate used to calculate whether employers need to add money to pension funds. The decline automatically increased what companies needed to contribute to keep funds fat enough to meet pension obligations.

The latest estimate is that employers need to add \$350 billion to pension funds.

Congress wants to raise the interest rate by changing the benchmark from the 30-year Treasury bond to a corporate bond rate. That would reduce what companies owe.

Supporters of the proposal fear that without relief, some companies will be forced into bankruptcy and the pension system will be in worse shape than it is.

Opponents claim raising the interest rate would encourage underfunding of pensions and put more retirees at risk in the instance of employer bankruptcies.

Even Gray, who thinks companies like Delta need help, sees a downside to the proposed relief.

"At some point you have to pay," the Cumming resident said.

It's a point raised last month by Fitch Ratings, a New York-based credit rating firm.

Fitch Ratings said the proposals in Congress "simply defer existing cash obligations, posing long-term credit risks by magnifying the improvement in airline operating performance necessary to meet potentially larger pension plan funding requirements in 2006 and beyond."

Financial experts say retirees like Gray and Ehmer shouldn't have to worry about future pension funding. But they do.

"In theory, the money to fund your pension should already be set aside," said Rebecca McEnally, vice president of global advocacy at the Association for Investment Management and Research in Charlottesville, Va. "As a practical matter, it may or may not be set aside."

That concerns people like Ehmer and Gray. Their biggest fear is a takeover of their pension plans by the federal Pension Benefit Guaranty Corp. because of bankruptcy. That would mean less to live on, since each receives more than the maximum \$44,386 in annual pension the agency guarantees.

Lucent responds to worries about bankruptcy by saying it generates enough money to run its operations. But it acknowledges that paying for retiree health benefits is a strain, and it has cut some of those.

Pensions and health benefits are separate issues, but Lucent's cuts in death benefits and in subsidies for Medicare premiums and dental insurance make Ehmer nervous about the safety of his pension.

Like most retirees, the Atlantan based his retirement planning on receiving a specific pension, year after year.

"Whether someone is getting a \$70,000 pension or a \$40,000 pension, if your pension is cut in half, you are going to suffer a significant change in your living standard," he said.

Gray worries about a big hit, too, partly because he took a major part of his pension as a lump-sum retirement.

If Delta's pensions ended up with the Pension Benefit Guaranty Corp., the lump sum he took could reduce his pension below the \$44,386 ceiling.

But as united in worry as Gray and Ehmer are, they are divided over the relief designed to buy time for companies that owe hundreds of billions to pension plans.

"You can call it a bailout, but that's what's needed," said Gray.

His former employer, Delta, has lost money for three years and estimates it will have to add \$450 million to its pension funds in 2004. Spokeswoman Peggy Estes said Delta is committed to meeting its funding responsibilities.

"If there is no other reason to change the rule than to make a fund look more profitable than it is, then it is a gimmick," countered Ehmer.

Lucent, which has made money the last two quarters, does not expect it will need to make a contribution through 2006.

Ehmer, who ran fiber-optics plants for Lucent, worries that the proposed relief would simply prolong the funding shortfall and eventually hurt people like him.

"When pension plans are underfunded, the promised benefits we worked for could disappear," he said.

The U.S. House and Senate have passed bills that would provide two years of relief while a long-term solution is reached.

The measures would reduce the gap between promised benefits and the value of pension funds, and trim or eliminate cash payments that would otherwise be due.

Business organizations argued, successfully, that the 30-year Treasury rate that has been used artificially inflates pension obligations.

The Senate version would give additional breaks to airlines and steel makers, among others.

Negotiations to resolve that difference in the two bills have not begun, according to the office of Rep. John Boehner (R-Ohio). Boehner introduced the House version to buy time for a solution to what he calls a "chronic underfunding crisis."

Employers with pension plans were given interest rate relief in 2002, but that break expired at the end of 2003.

Gray, 61, is in favor of some relief, even if it does not give Delta additional leeway on payments to its pension plans.

"Delta has a very rough road ahead for at least a year. Any help that would slow down a race toward the bankruptcy cliff would be beneficial," he said.

Gerald Grinstein, Delta's chief executive, has said he wants to avoid bankruptcy. However, Gray and some other former Delta pilots have formed a nonprofit organization in hope of getting a voice in court, just in case.

Ehmer, who's 67, also is active in a pension interest group. He's Southeast director of an organization of Lucent retirees formed because of concern about losing benefits.

"There are industries, such as airlines, that are really in dire straits," he said. "We really don't have a big problem in helping out industries that are in serious trouble. It's better than letting them go bankrupt. But don't help companies that don't need it."