The Pension-Plan Pit: Major Companies Face Shortfall of Billions of Dollars

By Cassell Bryan-How and Robin Sidel

Ford Motor Co. and General Motors Corp. aren’t the only big companies seeing cracks in their pension-fund nest eggs.

Concerns about pension liabilities this week contributed to steep selloffs in the stocks and bonds of the nation’s biggest auto makers. Acknowledging the impact of the recent stock-market slump, both Ford and GM have signaled that they will likely lower the assumed rate of return for their huge pension trusts later this year, a move that could cut into earnings.

Perhaps more important, both may need to contribute billions of dollars to their increasingly underfunded plans, even as they could well use their cash for other purposes.

A new study by Credit Suisse First Boston indicates that those companies may not be alone. The report, which looks at the 360 companies in the Standard & Poor’s 500-stock index that have pension plans, estimates that, by year’s end, the companies will have assets to cover only 79% of their liabilities. All together, the companies face a $243 billion pension shortfall, based on estimated obligations of $1.15 trillion and assets of $904 billion, according to CSFB.

It is the first collective shortfall for the S&P 500 companies since 1993, according to another new report, from UBS Warburg.

The upshot: The contributions holiday of the late 1990s that many companies enjoyed as a result of the long bull market is now grinding to a halt. And with the stock market down so sharply from its peak, it will take an unusually strong rebound for the companies to go back on holiday anytime soon.

How quickly fortunes have changed for the S&P 500 pension plans. In 2001, obligations were roughly equal to assets, according to CSFB, while in 1998 assets totaled $1.15 trillion, far exceeding obligations of $897 billion.

Which companies now face some of the steepest obligations? The CSFB study ranked the largest underfunded pension plans relative to current market capitalizations and concluded that 14 companies are on track to end this year with pension funds short by a value equivalent to 50% or more of their current market cap, as of Sept. 24.

Topping the list are American Airlines parent AMR Corp., Fort Worth, Texas, and Atlanta-based Delta Air Lines. CSFB estimates AMR will be underfunded by $3.37 billion at year end, a sum that is more than six times greater than the company’s current market cap. Delta is estimated to be underfunded by $4.38 billion, or more than 3.5

Please Turn to Page C3, Column 1
Continued From Page C1.

times its current market cap. Avaya Inc.,
Goodyear Tire & Rubber Co. and GM
round off the top five.

To be sure, the volatile market could
rally by year end, and the reports are
based on multiple assumptions beyond the
performance of the market over the next
several months. Goodyear spokesman
Keith Price says that "if the stock market
turns around and gains some traction,
both the underfunding and the market-cap
calculations can change considerably."

Goodyear, whose pension plan CSFB
estimates will be short $1.97 billion by
year's end, recently contributed
$140 million of stock to that plan.

The contribution was made "even though we aren't re-
quired to make any contributions until
2004," Mr. Price says.

GM already is channeling cash gener-
ated from the auto business into its pen-
sion funds, and the big auto maker es-
imates it may have to contribute as much
as $12 billion to the plans over the next
five years. Some analysts think that fig-
ure could be even higher, especially since
the obligation is based on the assump-
tion that the funds have a break-even return
this year and annual gains of 8% to 10%
starting in 2003.

Investors are likely to get a better
sense of those obligations next week
when GM reports third-quarter earnings.
At the end of last year, GM's pension
funds had $7 billion in assets. Returns
on those assets fell 3% in the first half of
2002.

CSFB estimates GM's deficit will
widen to $29.4 billion by the end of this
year. GM has said that its pension plans
were underfunded by $9.1 billion at the
end of 2001, and has estimated that if
pension returns are down 5% this year,
that amount could grow to $16 billion.
"We acknowledge this is a meaningful
challenge, but it is also a manageable
challenge," says GM spokesman Jerry
Dubrowski.

Ford's plan will be underfunded by
$14.3 billion by year's end, estimates
CSFB. Ford has said that as of June 30
the underfunding stood at $3.2 billion. It
also said that the plan's investments
were down 6.7% for the first six months.
Given that performance figure along
with further market declines, company
spokesman David Reuter says Ford
doesn't expect the fund to see a positive
rate of return for the year. Mr. Reuter
doesn't wish to comment on CSFB's esti-
mates.

Some companies are quick to note
that when obligated to make contribu-
tions, they are required to do so only in
increments over several years. Avaya,
whose pension fund CSFB estimates will
be underfunded by $703 million by year
end, expects to pay $60 million to fund its
pension plan in 2003, a portion of which
will be subject to an assessment of the
value of the plan's assets this coming
Jan. 1. An Avaya spokeswoman declines
to comment on the report.

AMR spokeswoman Andrea Rader
says, "At American, we're watching our
pension obligations closely."
She adds the company has funded the plan this
year and that it is "in line with govern-
ment and accounting regulations." Delta
spokesman Tom Donahue declines to
comment on the CSFB report, citing the
company's coming earnings release.