

GM THE “FAILED BUSINESS MODEL” PAYS ITS RETIREE PENSIONS; EXXON DOESN'T

I mentioned the other day that Nancy and Harry had instructed the Big Two and a Half to explain how it will deal with its pension funds (and healthcare) going forward.

Include proposals to address the payment of health care and pension obligations;

That suggested an unspoken worry—that if GM went bankrupt, the Pension Benefit Guarantee Corporation—the Federal Government—would have to pick up those obligations to retirees. If it had to do so, it would overwhelm the PRGC.

But an NYT story reveals the degree to which Congress really wants GM to stay in business—because right now, GM's pension fund is in pretty good shape (h/t Scarecrow).

G.M. appears to have enough money in the pension fund to pay its more than 400,000 retirees their benefits for many years – even with the markets swooning around it. That is largely because of the conservative way G.M. has managed the fund recently, and it explains why G.M. has not joined the long list of companies pressing Congress for pension relief.

But this glimmer of hope in a bleak auto landscape could change drastically, particularly if G.M. struggles along for a few more years, only to go bankrupt.

That's because—at a time when the Bush Administration was advocating privatizing social security and moving money into stocks, GM was moving out of stocks.

The G.M. pension is viable today because of the company's response to the firestorm at the beginning of this decade, said Nancy C. Everett, chief executive of G.M. Asset Management. The unit manages the company's domestic and foreign pension funds, as well as other big pools of company money.

[snip]

At the time of the tech crash, most pension funds had invested heavily in stocks, and stocks lost billions of dollars in value. At the same time, interest rates fell to unusually low levels, causing a painful mismatch, because low rates make retirees' benefits more expensive for pension funds to pay. G.M.'s pension fund finished 2002 with a shortfall of almost \$20 billion, by far the biggest of any American company.

[snip]

The big mismatch of 2002 showed pension officials that stocks could produce more volatility than a mature pension fund like G.M.'s could bear. The company could not wait for stock prices to come back up eventually, because it had 400,000 retirees waiting to be paid about \$7 billion every year.

[snip]

Then, over several years, G.M. overhauled its investment portfolio, replacing billions of dollars worth of stocks with bonds, and adding derivatives to make the duration of the bonds better match the schedule of payments to retirees.

Just by way of comparison, let's look at the energy sector—a sector, I'm sure, that Richard Shelby believes has a sound business model (h/t

dakine).

Oil majors Exxon Mobil Corp (XOM.N: Quote, Profile, Research, Stock Buzz), ConocoPhillips (COP.N: Quote, Profile, Research, Stock Buzz) and other energy companies top the list of U.S. companies with severely underfunded pensions – a situation that may drain precious cash in a time of capital market volatility, especially at smaller firms.

A sell-off in crude oil and natural gas prices has already prompted many energy companies to rein in spending and conserve cash, but the sector may also see earnings pinched by contributions needed to make up for shortfalls in defined pension plans.

[snip]

Corporate defined pension plans have been hit hard by the sharp declines in the global stock markets this year. Standard & Poor's estimated corporate retirement coffers in aggregate may end the year with a shortfall of more than \$219 billion.

Exxon has the largest pension deficit of companies in the Standard & Poor's 500 with a \$6.7 billion shortfall, Conoco is fifth with a shortfall of \$1.6 billion and Chevron Corp (CVX.N: Quote, Profile, Research, Stock Buzz) comes in at eighth with a pension deficit of \$1.2 billion, according to fiscal 2007 data compiled by Citigroup Equity Research.

(Though apparently, Ford's on the pension underfunding shit-list along with Exxon, so it's not just big oil that's not taking care of its obligations to its retirees.)

Just another data point for those who swear that GM can't change its ways.