Your Incredible Vanishing Pension

The Motley Fool
By Rich Smith

"Bethlehem Steel was a giant. You knew if you worked for a place like that, you were ... set for life."
— Wife of a Bethlehem Steel employee

"The human tragedy [of Bethlehem Steel] is not so much the loss of jobs... The human tragedy is the many, many people who were dependent on benefits which they thought were guaranteed."
— Lance Metz, historian, National Canal Museum

Every so often, PBS reruns its superb documentary on the history of Bethlehem Steel. If you work for a living, I'd encourage you to watch it, and to keep an ear open for the above lines. They starkly outline the contrast between what workers and retirees believe their future will hold and the awful way it often plays out.

Because when Bethlehem Steel went bankrupt, not only did the company die — and workers lose their jobs — but retirees who thought they were "set for life" suddenly found themselves out in the cold.

A cautionary tale

Over the course of a century and a half of American history, Bethlehem Steel built the iron bones of our nation. But by the 1990s, Bethlehem's own bones had become frail. Wracked by debt and beset by foreign rivals, Bethlehem struggled to earn the profits necessary to pay the salaries of 11,500 workers and the pensions of 120,000 retirees and their dependents. In 2001, Bethlehem gave up and filed for bankruptcy. A year later, it transferred its pension fund and its obligations to the U.S. Pension Benefit Guaranty Corporation (PBGC).

In one fell swoop, Bethlehem's retirees — people who had already fulfilled their side of the social contract — were put at the mercy of the federal bureaucracy. In no time at all, the PBGC put the kibosh on Bethlehem's agreement to let workers retire on full pensions after 30 years. Instead, workers got the standard deal: Work until age 62 or forget about collecting a check. It didn't matter whether you had just joined the company or were due to hit 30 years of service the next week — if you hadn't yet crossed the finish line, the PBGC erased it under your nose.

But it gets worse. For Bethlehem's retirees, and for the workers who soldiered on in the employ of International Steel Group (which bought Bethlehem before selling itself to **Mittal Steel** (NYSE: MT)), the secure retirement they had worked for their whole lives was about to disappear. Because when pensions are underfunded, the PBGC doesn't necessarily make up the difference.

Continued on back

In Bethlehem's case, the PBGC determined that the pension fund lacked $4.3 billion to be made sound. The PBGC anted up $3.7 billion — that's the good news. The bad news was that Bethlehem's employees and retirees had also bargained — and worked — for the promise of health-care coverage in retirement. The PBGC calculated the value of that promise at $3.1 billion, but didn't cover a dime of it.

"It could happen to you"
Heed the prophetic words of Ed McMahon. A 2005 study conducted by Standard & Poor's listed 20 U.S. companies with massively underfunded pension obligations. At the top of the list — as will surprise no one who reads a newspaper from time to time — are the nation's two leading automakers: **Ford** (NYSE: F), occupying the top slot, and **General Motors** (NYSE: GM), at No. 3. As of June 2005, the two firms' unfunded pension liabilities totaled a staggering $20 billion.

Further down the list, we see representatives from a number of firms you might not have expected to find in this situation: high-tech powerhouses like **IBM** (NYSE: IBM) and **Hewlett-Packard** (NYSE: HPQ), for example. And defense giants **Lockheed Martin** (NYSE: LMT) and **Raytheon** (NYSE: RTN). What all these companies have in common is that they date from the era of the old social contract: You give your employer the best years of your life, and in return for your loyalty, and for taking a lower wage than you could have earned elsewhere, your employer will provide you a decent pension in your golden years.

As the wife of one Bethlehem Steel employee put it: "We devoted our entire lives to this moment" when she and her husband could retire.

And there's the rub. Just when the workers thought they were about to retire, Bethlehem reneged on its end of the deal. Workers who were just a few years, months, or even weeks away from their 30th anniversary found that the PBGC had shifted the goalposts.

It's time to master your money
Now every story needs a moral, and this one is no exception: The age of the old social contract is kaput.

Whether by design or incompetence, the managements of many of America's greatest companies of yesteryear are today unable to keep their word. As Steve Miller, the man brought in to "save" Bethlehem Steel in 2001, put it: "We do not have the money to make good on all the promises made by this corporation over the last 50 years."

So if you're nearing retirement, or if you're already retired and depend on your former employer to continue paying your benefits, it's only prudent to ask yourself how much faith you have in your management. How certain are you that your employer actually *has the money* to honor its promises?

Continued

If the answer to either of those questions is anything less than "absolute faith," it's time to do something about it. Because if your company can't or won't take care of you, and if your government won't pick up the slack, then there's only one person left who can make your retirement secure for yourself and your family: You.

Take a step in the right direction with the latest report in our "Master Your Money" series. In it, Tom Gardner tells you how to make sure the companies you put your faith — and investing dollars — in are worthy of your trust. The report is absolutely free. All you have to do is click here to claim it.

This article originally ran on July 15, 2005. It has been updated.

Fool contributor Rich Smith does not own shares in any of the companies named above. Mittal Steel is a Motley Fool Inside Value recommendation. The Motley Fool's disclosure policy is fully funded.

This feature may not be reproduced or distributed electronically, in print or otherwise without the written permission of uclick and Universal Press Syndicate.