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Pension funds used for retirement offers

Unusual move irks UAW members

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Detroit automakers are turning to their pension funds to pay for incentives to persuade people to retire, the Free Press has learned.

Some workers, however, are balking at the arrangements, worried about their future retirements, even though the pension funds being used contain more money than they need to meet obligations.

Chrysler LLC and General Motors Corp. confirmed Friday that they are using the technique, while a Ford Motor Co. representative was unsure.

Chrysler worker Shawn Fain, a UAW local leader in Indiana, expressed concern about money being taken from the pension and sarcastically added: "We're going to offer you an incentive package to retire, yet you can pay for it with the pension fund -- what a deal!"

"I don't remember it ever coming from the pension fund," said Fain, who is a committeeman at UAW Local 1166, which represents workers at Chrysler's casting plant in Kokomo, Ind.

Auto industry experts agreed that the move seemed new for Detroit automakers, who are offering buyouts and retirement packages to further trim their hourly ranks.

A Chrysler spokeswoman said this was a first that the automaker had used pension money for retirement incentives, and a GM spokesman said he was not aware of his company doing it before either.

"This appears to be -- if not unprecedented -- rare," said labor expert Harley Shaiken, a University of California-Berkeley professor.

Workers likely to be concerned

"Many workers will feel that you're robbing Peter to pay Paul," Shaiken said. "You're taking our money to have us retire. There is likely going to be a more complex explanation offered."

Chrysler spokeswoman Michele Tinson said the automaker was simply trying to offer its workers another option to leave the company voluntarily.

"It does not negatively affect the employees' pension. It is to help offset tax implications and provide them another option," Tinson said.

She noted that the UAW and company worked closely together on the issue "to help increase the take rate of the packages."

A UAW spokesperson could not be reached for comment.

At Chrysler, one of the packages being offered earlier this year included a $70,000 lump-sum payment to UAW workers who were retirement-eligible with the money being paid out of corporate funds.

Some UAW members complained to the Free Press, however, that workers were reluctant to take the $70,000 incentive because it would be taxable.

In recent days, Chrysler confirmed that it went back to retirement-eligible UAW members, offering to pay the lump sum out of its pension fund, allowing the employees the ability to put the money into a retirement account, such as a 401(k) or annuity at a tax savings, Tinson said.

Tinson would not say how many packages will be paid for with pension money.

Pension funds with excess

When DaimlerChrysler AG announced last year that it was selling Chrysler to Cerberus Capital Management, the German company said Chrysler's pension fund was overfunded by $2 billion.

In addition, the German company promised to provide a conditional guarantee of $1 billion for up to five years to ensure the pension remained safe. Cerberus was required to contribute $200 million to the fund as part of the deal.

GM, in its effort to shed hourly workers, has offered buyout and retirement packages to all of its UAW workers.

Buyout packages are being paid for with corporate money, said GM spokesman Dan Flores, but the automaker is using its pension fund for lump-sum payments of $45,000 and $62,500 to retirement-eligible production workers and skilled-trades workers, respectively.

"However they choose to take it, whether it is in cash or annuity or a rollover, it is coming out of the pension fund," Flores said.

"We're taking advantage of the overfunded status, and it certainly helps with regard to not having to tap into corporate cash," Flores said.

According to GM's financial filings, the automaker's U.S. pension plan was overfunded by $18.8 billion at the end of 2007.

Ford has offered a similar tax-efficient option to retirement-eligible employees, but a Ford spokeswoman was unsure Friday whether the company was using its pension fund to pay for it.

Not an entirely new move

Mark Johnson, a pension consultant in Texas who was once American Airlines' managing director of benefits compliance and pensions, said companies sometimes tap pension funds for qualified severance plans.

"There's nothing unusual about that," he said. "I would almost call this mainstream from a pension specialist point of view. ... To a nonspecialist, sure it looks creative, it looks different and all of that, but it is certainly not out of line at all with how employers can properly use their qualified plan."

Johnson said money in the pension plan belongs to the fund -- not the employer or employees -- and an employer can amend the plan for such a purpose.

Said pension expert James Wooten, a professor at the University at Buffalo Law School: "It was quite typical in the '90s with the market going up. Lots of plans were overfunded, and if they were going to try to downsize, they would fund buyout packages with their excess pension packages."

He added: "I am not aware of it happening that often among collective bargaining plans."

Gerald Meyers, former chairman of American Motors and now a business professor at the University of Michigan, said he was not aware of auto companies tapping pension funds in such a manner.

"That's not going to be popular," Meyers said. "It's a redistribution of wealth to a limited number of people, whereas ... a pension fund is set up to cover the needs of the greater good, not just the few people leaving the company."

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