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GM Outlook Grim As PBGC Enlists Help

Friday, March 24, 2006 --- In another ominous sign for General Motors Corp., the Pension Benefit Guarantee Corp. has requested the help of outside counsel in addressing a slew of concerns surrounding the world's largest automaker, including its potential bankruptcy.

The government-backed insurer filed the request this week, seeking private "advice and counsel" on the possible spinoff of GM's financial arm, General Motors Acceptance Corp. as well as the bankruptcy of auto parts manufacturer Delphi, GM's main supplier.

The agency is also requesting guidance on the issues surrounding GM's pensions and work force cuts and the likelihood of the automotive company filing for Chapter 11 protection or an out-of-court restructuring, according to documents detailing its proposal.

"GM has suffered large losses; its credit rating has declined to well below investment grade; and there has been speculation in the press and elsewhere that the company may have to seek bankruptcy protection in the future," said the PBGC.

PBGC, functioning as an insurance agent, backs pension benefits for upwards of 40,000 private pension plans covering an estimated one-third of the American work force

With bankruptcies crippling the airline and automotive industries, the insurance agency has been stretched to the breaking point in recent years after assuming the collapsed plans.

The rash of big bankruptcies has fueled speculation that the PBGC itself will be in trouble down the road.

A report released in early November by Rochdale Research in New York concluded that a taxpayer bailout of the PBGC is inevitable.

That some month, the PBGC, designed to be self-funded by businesses' premiums, reported to Congress a deficit totaling $22.8 billion, down $530 million from the previous year.

The agency is facing an uphill battle, with its exposure to losses from pension plans sponsored by financially troubled businesses rising from $96 billion to $108 billion last year, according to the agency's executive director Bradley Belt.

A GM bankruptcy has long been feared by the PBGC, given the enormous financial strain it would potentially place on the agency.

“This is really the worst-case scenario for PBGC,” says Ken Yager, a managing consultant at Morris-Anderson & Associates.

“It is meant to pick up here and there, and now everybody is coming to the door looking for a fix,” he says.

At the end of 2005, GM’s pension liability was $10.9 billion, with the gap representing the difference between assets and pledged benefits.

The automotive giant sponsors several pension plans, including a salaried plan with 200,000 participants and another covering current and formerly hourly workers with about 500,000 participants, according to the PBGC.

Earlier this month, GM announced that it would transfer thousands of salaried workers into a less expensive plan in hopes of slashing its year-end liability by approximately $1.6 billion.

But the amount that PBGC may still be asked to cover, in the event of a GM bankruptcy, may have triggered the agency’s desire for help, according to Ken Yager, a managing consultant at Morris-Anderson & Associates.

“GM has generally been the poster child for what might kill the PBGC or turn the government into a giant subsidy for every bad business that has a pension,” says Yager.

Over the years, whenever the subject of the PBGC and its problems has arisen, talk has inevitably turned to how the agency would handle a GM bankruptcy, according to Yager.

“This is it,” says Yager. “This could set some serious precedents about what PBGC will have to take on in the future.”

Yager believes that PBGC has moved away from the “last resort” it was originally intended to be as companies like GM wrestle with staggering legacy costs.

With PBGC picking up more and more of the tab, Chapter 11 restructuring can serve as a semi-escape from these daunting payments, says Yager.

The sentiment echoes a recent report released by ratings agency Stanley & Poor’s, which warned of this problem, particularly in the automotive industry, and cautioned companies not to pursue this path.

By enlisting outside help in the GM case, the PBGC has signaled its intention to enlist the best and the brightest minds in attacking this problem, says Yager.

But the move does not bode well for GM's future, says Yager, as it serves to reinforce the negative outlook facing the automaker these days.

"If people are placing their bets on what GM is going to do, the government just flipped over its card," says Yager.

"This is not an endorsement of GM's positive, non-bankruptcy future."

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