

April 2010

TROUBLED ASSET RELIEF PROGRAM

Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future



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Highlights of [GAO-10-492](#), a report to congressional committees

Why GAO Did This Study

Over \$81 billion has been committed under the Troubled Asset Relief Program (TARP) to improve the domestic auto industry's competitiveness and long-term viability. The bulk of this assistance has gone to General Motors (GM) and Chrysler, who sponsor some of the largest defined benefit pension plans insured by the federal Pension Benefit Guaranty Corporation (PBGC). As part of GAO's statutorily mandated oversight of TARP, this report examines:

- (1) the impact of restructuring on GM's and Chrysler's pension plans;
- (2) the impact of restructuring on auto supply sector pension plans;
- (3) the impacts on PBGC and plan participants should auto industry pension plans be terminated; and
- (4) how the federal government is dealing with the potential tensions of its multiple roles as pension regulator, shareholder, and creditor.

To conduct this study, GAO interviewed officials at GM, Chrysler, a labor union, a supplier association, the Departments of the Treasury and Labor, and PBGC; and reviewed relevant statutes, reports, and documents concerning the automakers' restructuring and pension plan funding.

Treasury and PBGC generally agreed with the report's findings. Their technical comments and the technical comments provided by GM, Chrysler, and Delphi, were incorporated as appropriate.

View [GAO-10-492](#) or [key components](#). For more information, contact Barbara Bovbjerg at (202) 512-7215 (bovbjerg@gao.gov); or A. Nicole Clowers at (202) 512-2834 (clowersa@gao.gov).

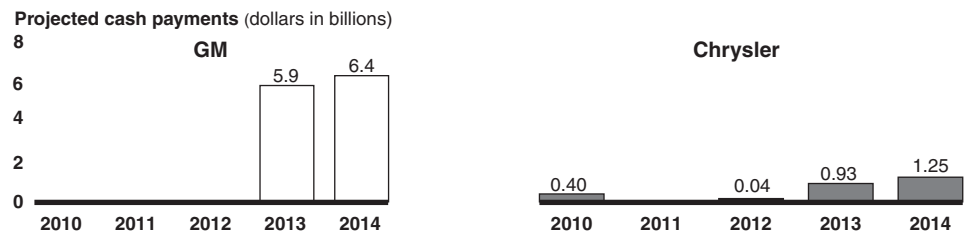
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What GAO Found

The new GM and the new Chrysler that were established during each company's bankruptcy process in the summer of 2009 assumed sponsorship for all the old companies' U.S. defined benefit plans. Although the pension plans have been maintained, their future remains uncertain. According to current company projections, large contributions may be needed to comply with federal pension funding requirements within the next 5 years.

Projected Contributions Needed to Fund GM and Chrysler Pension Plans (2010-2014)



Source: GAO analysis of GM and Chrysler funding projections for all U.S. qualified defined benefit pension plans each sponsors, based on valuation methods for required contributions defined under the Pension Protection Act.

Officials at the Department of the Treasury, which oversees TARP, expect both GM and Chrysler to return to profitability. If this is the case, then the companies will likely be able to make the required payments and prevent their pension plans from being terminated. However, if GM and Chrysler were not able to return to profitability and their pension plans were terminated, PBGC would be hit hard both financially and administratively. In early 2009, prior to the new companies assuming sponsorship, PBGC estimated that its exposure to potential losses for GM's and Chrysler's plans to be about \$14.5 billion.

Meanwhile, automaker downsizing and the credit market crisis have created significant stress for suppliers and their pensions. During 2009, there was a rise in the number of supplier bankruptcies, liquidations, and pension plan terminations. In July, the nation's largest auto parts supplier, Delphi Corporation, terminated its pension plans with expected losses to PBGC of over \$6.2 billion. Across the auto sector as a whole, in January 2009, PBGC estimated that unfunded pension liabilities totaled about \$77 billion, with PBGC's exposure for potential losses due to unfunded benefits of about \$42 billion, leaving plan participants to bear the potential loss of the \$35 billion difference through reduced benefits.

Moreover, until Treasury either sells or liquidates the equity it acquired in each of the companies in exchange for the TARP assistance, its role as shareholder creates potential tensions with its role as pension regulator and overseer of PBGC in its role as pension insurer. In particular, tensions could arise if decisions must be made between allocating funds to company assets (thereby protecting shareholders, including taxpayers) or to pension fund assets (thereby protecting plan participants). As GAO reported previously, better communication with Congress and others about TARP interests could help mitigate such tensions.

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Abbreviations

AIFP	Automotive Industry Financing Program
ERISA	Employee Retirement Income Security Act of 1974
GM	General Motors Company
IRS	Internal Revenue Service
PBGC	Pension Benefit Guaranty Corporation
PPA	Pension Protection Act of 2006
TARP	Troubled Asset Relief Program
UAW	International Union, United Automobile, Aerospace and Agricultural Implement Workers of America
VEBA	Voluntary Employee Beneficiary Association

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United States Government Accountability Office
Washington, DC 20548

April 6, 2010

Congressional Committees

Domestic auto manufacturers remain sponsors of some of the largest private defined benefit plans in the United States. The fate of these pension plans affects not only the benefits of current and future auto company retirees, but also the financial well-being of the Pension Benefit Guaranty Corporation (PBGC)¹—the federal corporation that insures private sector defined benefit plans. During the past year, the U.S. automotive industry has undergone major restructuring, including the bankruptcy reorganization of two of the country’s largest auto manufacturers and re-emergence as new companies—General Motors Company (GM) and Chrysler Group, LLC (Chrysler)—and the continued consolidation in the auto supply industry. Since 2008, the federal government has committed to provide over \$81 billion under the Troubled Asset Relief Program (TARP) to assist the automobile industry.² These funds, along with loans from the Canadian government and concessions from nearly every stakeholder (including labor unions), were intended to allow the companies time to restructure to improve their competitiveness and long-term viability, which is critical to the future of both the companies and their pension plans. In exchange for this funding, the federal government acquired partial ownership in and made loans to the new GM and the new Chrysler that were established during the bankruptcy process. Treasury’s new role as a shareholder adds an unprecedented and extraordinary element to the previously established government responsibilities of regulator and its relationship to PBGC as insurer.

Under our statutorily mandated responsibilities for providing timely oversight of TARP, we are continuing to report on the federal

¹29 U.S.C. §1302.

²The Emergency Economic Stabilization Act of 2008 authorized TARP, Pub. L. No. 110-343, Div. A, §§ 101-136, 122 Stat. 3765, 3767-3800 (codified at 12 U.S.C. §§ 5201-5241).

government's assistance to the U.S. automotive industry.^{3,4} In this report, we focused on the impact of the recent restructuring on auto industry pension plans and the government's role in overseeing those plans and PBGC's role in insuring these plans. Specifically, our review focused on the following questions:

- (1) How has restructuring affected GM's and Chrysler's pension plans and the outlook for the plans going forward?
- (2) How has restructuring affected auto supply sector pension plans?
- (3) What are the impacts on PBGC and plan participants should auto industry pension plans be terminated in the next 5 years?
- (4) How is the federal government dealing with the potential tensions between its multiple roles as pension regulator and insurer, and its new roles as shareholder and creditor?

To describe how restructuring has affected GM's and Chrysler's pension plans and the plans' funding going forward,⁵ we interviewed officials from each automaker. They provided us with an overview of their pension plans as well as a number of documents, including detailed actuarial information about their PBGC-insured pension plans. We interviewed Department of Treasury (Treasury) officials who are responsible for overseeing the assistance to GM and Chrysler (referred to as Treasury's "auto team") in Treasury's program office for TARP, the Office of Financial Stability.

³GAO is required to report at least every 60 days on findings resulting from, among other things, oversight of TARP's performance in meeting the purposes of the act, the financial condition and internal controls of TARP, the characteristics of both asset purchases and the disposition of assets acquired, TARP's efficiency in using the funds appropriated for the program's operation, and TARP's compliance with applicable laws and regulations. 12 U.S.C. § 5226(a).

⁴For more information on the restructuring of GM and Chrysler companies overall, see GAO, *Troubled Asset Relief Program: Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM*, [GAO-10-151](#) (Washington, D.C.: Nov. 2, 2009); GAO, *Auto Industry: Summary of Government Efforts and Automakers' Restructuring to Date*, [GAO-09-553](#) (Washington, D.C.: Apr. 23, 2009); and GAO, *Auto Industry: A Framework for Considering Federal Financial Assistance*, [GAO-09-242T](#) (Washington, D.C.: Dec. 4, 2008).

⁵While a portion of TARP funds for the auto industry have been used to assist GMAC LLC and Chrysler Financial, the former financing divisions of GM and Chrysler respectively, we did not review the effect of restructuring on the pension plans of these finance companies as they are now separate legal entities.

These officials provided information on Treasury's involvement in the restructurings and how it considered future plan funding when structuring the financing packages for the companies. We interviewed other Treasury officials, as well as officials at PBGC, and the Department of Labor (Labor). We also interviewed the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), which represents a significant number of the participants in the collectively bargained pension plans, and asked for their views on restructuring efforts and their effect on pension plans. Additionally, we reviewed materials related to restructurings, including corporate annual reports and bankruptcy documents, as well as relevant federal laws and regulations, and other materials related to defined benefit plans and plan funding, such as pension consulting briefs.

To describe how restructuring has affected the auto supply sector and its pensions, we interviewed officials from PBGC, Treasury, and the Motor and Equipment Manufacturers Association. We also reviewed materials related to key production parts suppliers in the auto industry, including corporate annual reports, bankruptcy filings, PBGC press releases, and industry publications.

To determine the potential consequences of plan termination for PBGC and plan participants, and to describe the tensions and challenges faced by the federal agencies responsible for the regulation and oversight of qualified defined benefit plans,⁶ we interviewed officials from GM, Chrysler, UAW, PBGC, and the board representatives for PBGC's Board of Directors, comprised of the Secretaries of Commerce, Labor, and Treasury, the primary agencies charged with pension regulation and overseeing PBGC. We requested additional actuarial information from the automakers in certain instances and reviewed bankruptcy documents related to the individual automaker restructurings. We also reviewed relevant federal laws and regulations, and past GAO reports that addressed the topics of pension plan termination and managing multiple roles under TARP.

⁶To qualify for preferential tax treatment, pension plans must satisfy certain requirements related, for example, to minimal funding, vesting, and accounting. 26 U.S.C. § 401. Employers may deduct their contributions to qualified plans. Although such contributions are a form of compensation to them, employees do not claim such contributions as income for tax purposes, but the income from pensions is considered taxable when pension benefits are received.

To ensure the technical accuracy of the information contained in the report, we asked representatives of GM, Chrysler, and Delphi to review portions of a draft of this report. We conducted this performance audit between September 2009 and April 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The domestic auto industry—including automakers, dealerships, and automotive parts suppliers—contributes substantially to the U.S. economy, but has faced financial challenges in recent years. According to the Congressional Research Service, more than 435,000 U.S. automotive manufacturing jobs have been eliminated since 2000—an amount equal to about 3.3 percent of all manufacturing jobs in 2008.⁷ The employment level first dipped below 1 million in 2007 and fell to 880,000 workers in 2008. The Detroit-based automotive manufacturers—GM, Chrysler, and the Ford Motor Company—have seen their share of the domestic market drop from 64.5 percent in 2001 to 47.5 percent in 2008. Prior to restructuring, GM and Chrysler reported losses in 2008 totaling \$31 billion and \$8 billion, respectively.

TARP Assistance for the Auto Sector

Concerned that the collapse of a major U.S. automaker could pose a systemic risk to the nation's economy, in December 2008, Treasury established the Automotive Industry Financing Program (AIFP) under TARP. Through June 2009, \$81.1 billion in AIFP funding has been made available to assist the auto industry. The largest part of the program's funding—about \$62 billion—was provided to help GM and Chrysler fund their operations while they restructured. In exchange for this funding, the Treasury has become part-owner of the two new companies that re-emerged, receiving 60.8 percent of the equity in the new GM and 9.85 percent of the equity in the new Chrysler, and has a debt interest of about \$14 billion in loans between the two.⁸ Given the large taxpayer

⁷Michaela D. Platzer and Glennon J. Harrison, *The U.S. Automotive Industry: National and State Trends in Manufacturing Employment*. (Washington, D.C.: Congressional Research Service, 2009).

⁸Treasury also received \$2.1 billion in preferred stock in GM.

investments in GM and Chrysler, in a recent report, we recommended that Treasury report to Congress on how it plans to assess and monitor the companies' performance to help ensure the companies are on track to repay their loans and to return to profitability. In response, Treasury said the agency intends to develop an approach for reporting on its investments in the auto industry that strikes an appropriate balance between its goal of transparency and the need to avoid compromising either the competitive positions of these companies or Treasury's ability to recover taxpayer funds.⁹ More broadly, we also previously recommended that Treasury better communicate to external stakeholders, including Congress, about its TARP strategies and activities to improve the integrity, accountability, and transparency of the program. In response to this recommendation, Treasury noted that it was implementing a communication strategy to provide key congressional stakeholders more current information about its TARP activities.¹⁰

AIFP also established the Auto Supplier Support Program—a mechanism to extend credit to auto suppliers. Under this program, Treasury committed to fund up to \$3.5 billion in loans to special purpose entities created by new GM and new Chrysler for the purpose of ensuring payment to suppliers. The program was designed to ensure that automakers receive the parts and components they need to manufacture vehicles and that suppliers have access to liquidity on their receivables.¹¹ According to Treasury officials, the program will terminate in April 2010.

Restructuring in the Auto Sector

As a condition of receiving federal financial assistance, GM and Chrysler were also required to develop restructuring plans to identify how the companies planned to achieve and sustain long-term financial viability.¹²

⁹GAO-10-151.

¹⁰GAO, *Troubled Asset Relief Program: March 2009 Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-504 (Washington, D.C.: Mar. 31, 2009); and GAO, *Troubled Asset Relief Program: June 2009 Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-658 (Washington, D.C.: June 17, 2009).

¹¹The remaining funds have been used: (1) for the Warranty Commitment Program, which provided funds to Chrysler and GM, but have been repaid in full; and (2) to provide assistance to GM's and Chrysler's financing divisions, now spun off as separate legal entities.

¹²For a more detailed discussion of Chrysler and GM restructuring efforts, see GAO-09-553 and GAO-10-151.

GM

Prior to restructuring, GM was a publicly traded company that employed about 240,000 people worldwide. It had manufacturing facilities in 34 countries and sold more than a dozen brands of vehicles in about 140 countries. GM's core U.S. brands are Buick, Cadillac, Chevrolet, and GMC; other brands included Daewoo, Holden, Hummer, Opel, Pontiac, Saab, Saturn, Vauxhall, and Wuling.

GM filed for Chapter 11 bankruptcy protection on June 1, 2009, and on July 5, 2009, the bankruptcy court approved the sale of substantially all of old GM's assets to a newly formed company, referred to as "new GM." The new GM assumed sponsorship of both of old GM's U.S. qualified defined benefit plans.

Chrysler

Prior to restructuring, Chrysler was a privately held company that employed about 54,000 people worldwide, including manufacturing facilities in four countries and vehicles assembled under contract in four others. Chrysler's major brands include Dodge, Chrysler, and Jeep.

Chrysler filed for Chapter 11 bankruptcy protection on April 30, 2009, and on June 9, 2009, the bankruptcy court approved the sale of substantially all of old Chrysler's assets to a newly formed company, referred to as "new Chrysler." The new Chrysler assumed sponsorship of all Chrysler's U.S. qualified defined benefit plans.

To implement the restructuring plans, both companies filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. During the bankruptcy process, newly organized companies for both GM and Chrysler were established in the summer of 2009. These new companies purchased substantially all of the operating assets of the previous companies, while the old companies, which retained very few assets but most of the liabilities, continued in bankruptcy. The new companies also streamlined operations and substantially reduced their debt. Changes included reductions in the number of brands and models, closing factories and dealerships, and reducing their hourly and salaried workforces through early retirements, buyouts, and layoffs.

Automakers are highly dependent on a large motor vehicle parts supply industry. The auto supply chain consists of networks of suppliers, transportation carriers, fabrication sites, assembly locations, distribution centers, and locations by which components, services, information and products flow. The supply chain starts with suppliers who assemble raw components into more complex components which are processed or combined with additional components and eventually brought together by top-level suppliers to manufacture end products for use by the automaker. Each level in the supply chain depends on the financial health of the other for its survival.

The U.S. auto supply sector became unstable as the domestic market share of the global automotive marketplace declined, prices for raw materials and petroleum increased, and production cuts ensued. These financial pressures affected various levels of the supply chain, leading some suppliers to file for bankruptcy, including the nation's largest U.S. auto supplier, Delphi Corporation (a spin off of GM), which filed for bankruptcy in 2005.¹³

Private Sector Pension Plans

About one-half of all U.S. workers participate in some form of employer-sponsored retirement plan, typically classified either as a defined benefit or as a defined contribution plan. Defined benefit plans generally offer a fixed level of monthly retirement income based upon a participant's salary, years of service, and age at retirement, regardless of how the plan's investments perform. In contrast, benefit levels for those with defined contribution plans depend on the contributions made to individual accounts (such as 401(k) plans) and the performance of the investments in

¹³For further details on Delphi, see appendix I.

those accounts, which may fluctuate in value. Over the last two decades, much of the private sector pension coverage has moved away from traditional defined benefit plans in favor of defined contribution plans and hybrid defined benefit plans,¹⁴ thereby increasing portability for workers as they change jobs, but also shifting the risk and burden of financing retirement from employers to employees.

Domestic automakers sponsor some of the largest private sector defined benefit plans. According to a financial publication, as of year-end 2007, GM sponsored the largest defined benefit plans by a considerable margin, with nearly 60 percent more benefit obligations than the plan sponsor ranked second: AT&T, Inc.¹⁵ The Ford Motor Company ranked fifth. At the time, Delphi, the auto supplier that spun off from GM in 1999, ranked 18th. Chrysler was not included in the publication's list, but, as of the beginning of 2008, it had about one-fourth of GM's benefit obligations, and would have ranked in the top 10 if its total benefit obligations were included on this list. Based on data gathered for previous GAO reports, in 2004, the plans sponsored by GM and Chrysler represented roughly 7 percent of the liabilities, 7 percent of the assets, and 2.5 percent of the total participants of the entire defined benefit system.¹⁶ The defined benefit plans that continue to be sponsored by the new GM and the new Chrysler are summarized in table 1. Unlike the new GM and new Chrysler, the "new Delphi" that emerged from Delphi's bankruptcy reorganization did not assume sponsorship of the company's pension plans. After Delphi froze its hourly pension plan in November 2008,¹⁷ some Delphi hourly employees began to accrue credited service in the GM hourly pension plan according to the terms of agreements negotiated with various unions, while other

Delphi

Delphi evolved as part of GM until it was spun off as a separate entity in 1999. By 2005, the company employed more than 185,000 workers in 38 countries, making it one of the largest suppliers in the world. However, on October 8, 2005, Delphi Corporation and its U.S. subsidiaries filed for Chapter 11 bankruptcy protection. Four years later, most of Delphi's U.S. and foreign operations were sold to a new entity, known as "new Delphi," on October 6, 2009.

The former Delphi Corporation sponsored six defined benefit plans for its U.S.-based workers. Despite efforts to keep the pension plans ongoing, on July 31, 2009, PBGC terminated all six of Delphi's U.S. qualified defined benefit plans.

For more details on Delphi, see appendix I.

¹⁴Hybrid plans are legally defined benefit plans, but they contain certain features that resemble defined contribution plans.

¹⁵Rob Kozlowski, "The List: Funded Status of the Largest Defined Benefit Plans," *Financial Week*, June 16, 2008.

¹⁶See [GAO-08-817](#) and GAO, *Defined Benefit Pensions: Survey Results of the Nation's Largest Private Defined Benefit Plan Sponsors*, [GAO-09-291](#) (Washington, D.C.: Mar. 30, 2009).

¹⁷A plan freeze is a plan amendment that closes the plan to new entrants and may or may not reduce future benefit accruals for some or all active plan participants. A "hard freeze," referenced here, occurs when the plan is closed to new entrants and participants no longer accrue additional benefits. For other freeze types and a discussion of their effects, see: GAO, *Defined Benefit Pensions: Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges*, [GAO-08-817](#) (Washington, D.C.: July 21, 2008).

Delphi employees did not receive similar treatment. PBGC terminated all six of Delphi's U.S. qualified defined benefit plans in July 2009.

Table 1: Defined Benefit Plans Sponsored by New GM and New Chrysler

Short plan name	Full plan name	Number of participants ^a	Collectively bargained plan ^b	Plan liabilities (dollars in millions) ^c	Plan status ^d
GM's plans					
Hourly Plan	General Motors Hourly-Rate Employees Pension Plan	505,289	Yes	(plan-level data not publicly available)	Open, but plan terms modified for certain new hires as of 10/15/2007 ^e
Salaried Plan	General Motors Retirement Program for Salaried Employees	197,098	No	(plan-level data not publicly available)	Plan closed and frozen for certain participants 1/1/2007 ^f
Total GM		702,387	-	\$98.1^g	
Chrysler's plans					
UAW Pension Plan	Pension Agreement between Chrysler LLC and the UAW	134,689	Yes	14,003	Open
Chrysler Pension Plan	Chrysler LLC Pension Plan	44,329	No	2,973	Closed 12/31/2003
Salaried Employees' Retirement Plan	Chrysler LLC Salaried Employees' Retirement Plan	46,217	Yes (for some)	2,567	Closed 12/31/2003
AMC Plan	American Motors Union Retirement Income Plan	10,693	Yes	809	Closed 12/31/1996
Jeep Plan	Jeep Corporation - UAW Retirement Income Plan	8,960	Yes	1,288	Open
Chrysler IUE Pension Plan	Pension Agreement Between Chrysler LLC and the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers	4,011	Yes	205	Frozen 3/31/2002
Executive Salaried Employees' Retirement Plan	Chrysler LLC Executive Salaried Employee's Retirement Plan	2,867	No	1,478	Closed 12/31/2003
Subsidiaries' Pension Plan	Chrysler LLC Subsidiaries' Pension Plan	1,693	No	22	Open

Short plan name	Full plan name	Number of participants ^a	Collectively bargained plan ^b	Plan liabilities (dollars in millions) ^c	Plan status ^d
Chrysler UPGWA/Guards Pension Plan	Pension Agreement between Chrysler LLC and the United Plant Guard Workers of America	985	Yes	41	Frozen 9/30/2005
GEMA UAW Pension Plan	Global Engine Manufacturing Alliance UAW Pension Plan	220	Yes	1	Open
Total Chrysler		254,664^h	-	\$23,387	

Source: GM and Chrysler documents.

^aGM participant data are as of September 30, 2008, and Chrysler participant data are as of January 1, 2008, (the most recent data available at the time of our study).

^bA collectively bargained plan is a plan in which contributions to the plan or benefits paid by the plan (or both) are subject to the collective bargaining process. At least some or all of the employees covered by the plan are members of a collective bargaining unit that negotiates the contributions or benefits (or both).

^cData on plan liabilities are based on “projected benefit obligations” as measured in accordance with Financial Accounting Standards. GM data are as of December 31, 2008, and Chrysler data are as of January 1, 2009.

^d“Closed” indicates closed to new hires, but active employees continue to accrue benefits; “frozen” indicates no employees are actively accruing benefits, sometimes called a “hard freeze”; future benefit accruals ceased as of the date indicated (unless otherwise noted). In all cases, the plan has not been terminated.

^eThe hourly plan was amended to provide a new cash balance benefit for all hourly new hires (except skilled trades) after October 15, 2007.

^fEmployees hired between January 1, 2001, and December 31, 2006, participated in a cash balance benefit under the plan, and this benefit was frozen as of December 31, 2006. Employees hired before January 1, 2001, received accrued defined benefits, and such benefits were frozen as of January 1, 2007, when a new lower defined benefit formula was implemented.

^gTotal includes a small amount of obligations (1-2 percent) for GM’s unqualified salaried plan, but are the only GM data publicly available.

^hTotal simply sums participant totals across each plan and does not represent unique participants within Chrysler plans. For example, according to Chrysler officials, most Chrysler Pension Plan participants also participate in the Salaried Employees Retirement Plan and, thus, would be counted twice in the data.

Federal Oversight of Private Sector Pensions

Three federal agencies are charged with responsibility for overseeing and regulating tax-qualified private sector pension plans: the Internal Revenue Service (IRS), an agency within Treasury; the Employee Benefits Security Administration, an agency within Labor; and PBGC, a government corporation.¹⁸ Two overlapping statutory sources provide the basis for this

¹⁸PBGC is a wholly-owned government corporation—that is, the federal government does not share ownership interests with nonfederal entities. As such, PBGC must prepare annual budgets, produce audited financial statements, and submit a management report to Congress each year. 31 U.S.C. §§ 9101(3)(J), 9103, 9105 and 9107.

oversight: the Internal Revenue Code,¹⁹ and the Employee Retirement Income Security Act of 1974 (ERISA).²⁰ These laws specify, among other things, the standards of fiduciary responsibility for managing these plans, minimum funding requirements, the requirements for reporting information to the federal government and plan participants, and plan termination insurance.

PBGC was created by ERISA in 1974 as a federal guarantor of most private sector defined benefit plans and currently insures the pension income of nearly 44 million workers in over 29,000 plans. PBGC is a self-financing entity, funding its operations through insurance premiums paid by the plan sponsors, money earned from investments, and funds received from terminated pension plans. It is governed by a three-member board of directors consisting of the Secretary of Labor as the Chair, and the Secretaries of Commerce and Treasury as the remaining members. The board of directors is ultimately responsible for providing policy direction and oversight of PBGC's finances and operations, but the board members often rely on their representatives to conduct much of the work on their behalf. Currently, the board representatives for the members are the Assistant Secretary of Labor for the Employee Benefits Security Administration, the Under Secretary for Economic Affairs at the Department of Commerce, and the Assistant Secretary of the Treasury for Financial Institutions.

PBGC administers two separate insurance programs for private sector defined benefit plans: a single-employer program and a multiemployer program.²¹ The single-employer program covers about 34 million participants in about 28,000 plans.²² The multiemployer program covers about 10 million participants in about 1,500 collectively bargained plans that are maintained by two or more unrelated employers. If a multiemployer pension plan is underfunded and unable to pay guaranteed benefits when due, PBGC will provide financial assistance to the plan,

¹⁹26 U.S.C. §§ 1-9834. The Internal Revenue Code is also referred to sometimes as simply "the tax code."

²⁰Pub. L. No. 93-406, 88 Stat. 829 (codified as amended at 29 U.S.C. §§ 1001- 1461).

²¹Unlike defined benefit plans, defined contribution plans are not covered by PBGC insurance. 29 U.S.C. § 1321(B)(1).

²²A single-employer plan is a plan that is established and maintained only by employers in a single controlled group. Single-employer plans can be established unilaterally by the sponsor or through a collective bargaining agreement with a labor union.

usually a loan, so that retirees continue receiving their benefits. However, if a single-employer pension plan is underfunded and certain criteria are met, the plan sponsor may request termination of the plan (referred to as a “distress” termination),²³ and PBGC will pay retirees’ benefits as they become due, up to certain limits as prescribed under statute and related regulations (see appendix II). PBGC may also initiate an “involuntary” termination under certain circumstances, such as when the possible long-run loss to PBGC is expected to increase unreasonably if the plan is not terminated.²⁴ As of the end of fiscal year 2009, PBGC had terminated and trustee a total of 4,003 single-employer plans.²⁵

We designated PBGC’s single-employer pension insurance program as “high risk” in 2003, including it on our list of major programs that need urgent attention and transformation.²⁶ The program remains high risk due to an ongoing threat of losses from the termination of underfunded plans. As of September 2009, PBGC had an accumulated deficit that totaled \$22 billion, a \$10.8 billion increase since September 2008.

²³29 U.S.C. § 1341(c).

²⁴29 U.S.C. § 1342(a).

²⁵If a plan has sufficient assets, a plan sponsor may voluntarily terminate the plan without it being trustee by PBGC (referred to as a “standard termination”). In such cases, the sponsor generally purchases a group annuity contract with an insurance company or makes lump sum payments so that participants are paid all the benefits accrued under the plan up to the date of termination. 29 U.S.C. § 1341(b). With respect to collectively bargained plans, there can be no distress or standard termination until the collective bargaining obligation has been rejected or modified—either through negotiated resolution or court order authorizing rejection of the agreement through the Bankruptcy Code. 11 U.S.C. § 1113 and 29 U.S.C. § 1341(a)(3).

²⁶GAO, *Pension Benefit Guaranty Corporation Single-Employer Insurance Program: Long-Term Vulnerabilities Warrant “High Risk” Designation*, GAO-03-1050SP (Washington, D.C.: July 23, 2003).

New GM and New Chrysler Assumed Sponsorship of Pension Plans in Restructuring, but Face Future Funding Challenges

As new companies, GM and Chrysler have streamlined their operations and have substantially less debt than their predecessors; nevertheless, the future viability of the companies and their pension plans is unclear. The bankruptcy agreements that provided for establishment of the new companies specified that they would assume sponsorship of the previous companies' U.S. qualified defined benefit plans, and made only one significant change to pension benefits. However, prior to the change in sponsorship, many of the pension plans had been closed to new hires or had ceased benefit accruals.²⁷ Moreover, since 2008, the funded status of the pension plans has been declining, and within the next 5 years, both companies project that, based on current estimates, they may need to make large contributions to their plans to comply with federal minimum funding requirements.

Restructuring Shifted Sponsorship of GM and Chrysler Defined Benefit Plans with Prior Changes Mostly Intact

As a result of restructuring, sponsorship for all GM and Chrysler U.S. defined benefit plans shifted to the new companies. But beyond the shift in sponsorship, the only significant change to pension benefits that occurred was the elimination of a future pension benefit increase that was to compensate UAW retirees for increased required contributions to their retiree health care plans, beginning in 2010.²⁸ For the most part, the terms of the restructuring called for current levels of employee benefits—including pension benefits—to remain in place for at least 1 year. Specifically, the master sale agreements for both companies stipulate that, in general, union employees are to be provided employee benefits that are “not less favorable in the aggregate” than the benefits provided under the employee pension and welfare benefit plans, and contracts and arrangements currently in place; nonunion employees are to receive current levels of compensation and benefits until at least 1 year after the date the agreements are signed.

²⁷See table 1 in the Background section for details.

²⁸In 2007, both GM and Chrysler had reached agreements with UAW to transfer responsibility for retiree health care of UAW members to new independent voluntary employee beneficiary associations (VEBA) that were created to manage retiree health plans starting on January 1, 2010. As part of the funding arrangement for these new VEBAs, members would have to pay an additional monthly contribution toward their medical benefits, but the automakers agreed to increase members' pension benefits by a corresponding amount once these added payments were to begin. This pension benefit increase became known as the VEBA “pension pass-through.” During the restructuring negotiations with GM and Chrysler, however, this benefit increase was eliminated before it was ever implemented.

More significant changes affecting GM's and Chrysler's pensions were made prior to last year's restructuring. For example, over the past decade, several of GM's and Chrysler's pension plans had been modified or closed to new hires, or had stopped allowing further benefit accruals. GM's salaried plan was closed and benefit accruals ceased for certain employees, while 4 of Chrysler's ten plans have been closed to new hires, and 2 other Chrysler plans have ceased benefit accruals (also referred to as being "hard frozen").²⁹ Nevertheless, new collective bargaining agreements were put in place in 2007 for both GM's and Chrysler's UAW-negotiated plans, calling for annual increases to the pension benefits for their participants.³⁰ In addition, both GM and Chrysler had implemented numerous attrition programs for both union and nonunion employees that provided various opportunities for early retirement and other types of added benefits as incentives to help mitigate the effects of downsizing. For a listing of attrition programs offered by these companies since 2004, see appendix III.

Funded Status of GM and Chrysler Pension Plans Has Been Declining

As illustrated in figure 1, the funded status of GM and Chrysler pension plans has been declining since 2008. This is due, in part, to the economic downturn, which has brought significant financial stress to many sectors of the economy, including the auto industry. The significant decline in the stock market decreased the value of certain assets (such as equities) and increased the value of others (such as bonds), while low interest rates tended to increase liabilities.³¹ Fluctuations in liabilities may also be

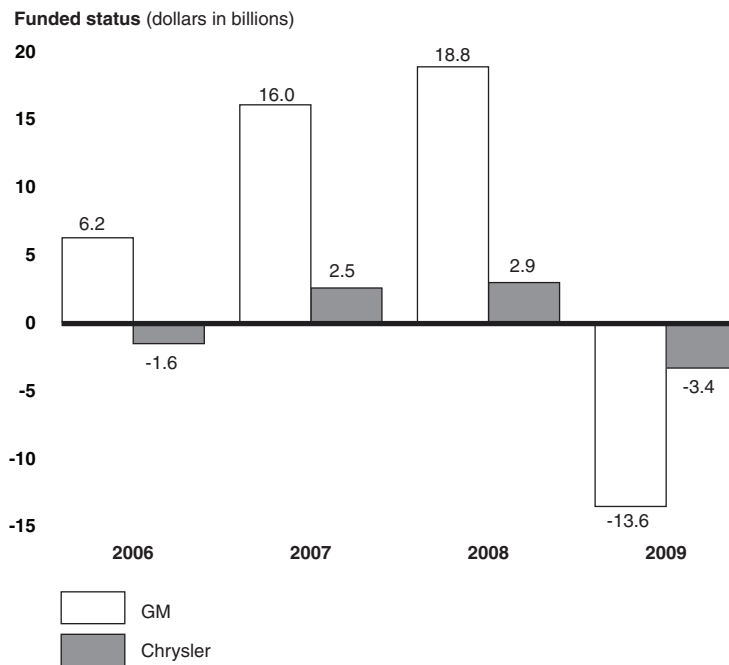
²⁹See table 1 in the Background section for details.

³⁰The 2007 UAW plan benefit increases included a \$2.65 or 5.1 percent increase (per month, per year of credited service) in the active basic benefit, a \$2.00 increase in the retiree basic benefit, and a retiree lump sum payment paid from the pension plan, among other changes.

³¹Liability valuations reflect the time value of money—that a dollar in the future is worth less than a dollar today. Using a lower interest rate would increase the present value of a stream of payments, while using a higher interest rate would decrease the present value of a stream of payments.

caused by changes to actuarial assumptions or other types of gains and losses.³² However, in the case of GM and Chrysler, certain other factors are at play as well.

Figure 1: Trends in the Funded Status of GM's and Chrysler's Pension Plans (2006-2009)



Source: GAO analysis of documents provided by the automakers for all U.S. qualified defined benefit plans each sponsors.

Note: Funded status reflects measurements in accordance with Financial Accounting Standards. For each year, the data for GM's plans are as of December 31 of the preceding year; the data for Chrysler's plans are as of January 1 of the year cited. GM's data include a small amount of obligations (1-2 percent) for the unqualified salaried plan, but are the only GM data publicly available.

³²Throughout this report, we have characterized the value of plan assets and plan liabilities based on available information obtained from financial statements and public filings. It is often the case that the value of assets and liabilities from these sources are substantially different than the value of assets and liabilities at the point of plan termination. We have reported previously that there are many factors that can increase plan liabilities immediately before plan termination, such as economic factors, benefit increases, and earlier-than-anticipated retirements. See GAO, *Pension Plans: Hidden Liabilities Increase Claims Against Government Insurance Program*, GAO/HRD-93-7 (Washington, D.C.: Dec. 30, 1992).

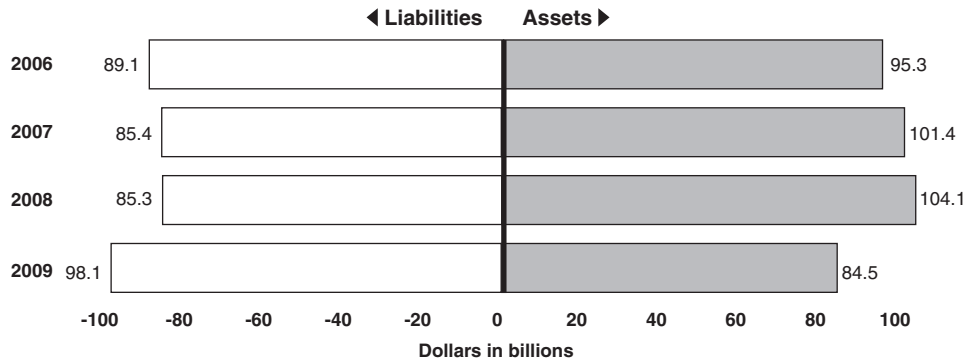
For example, a reduction in the number of workers is one key factor affecting the funded status of both companies' plans. Large numbers of workers have left employment as product lines are eliminated and plants are shut down. When workers are forced to leave their jobs before becoming eligible to retire, the liabilities for their expected future benefits will usually be less than previously recorded. However, for those workers who are eligible to retire early and choose to do so under the enhanced provisions of one of the numerous attrition programs, the liabilities for their expected future benefits will usually be greater than previously recorded. In other words, more workers will retire early and with more benefits than previously anticipated in the company's valuation of future benefit obligations.

GM began its downsizing even before its TARP-related restructuring efforts reduced the number of its North American brands from eight to four. According to a GM news release, approximately 66,000 U.S. hourly workers left the company under a special attrition program between 2006 and 2009.³³ Often the lump-sum payments and buyouts offered by these programs were paid from company assets, but when these benefits are paid from pension assets, there can be an impact on the plan's financial status.³⁴ GM noted that the attrition programs implemented between 2006 and 2009 contributed to an increase of estimated plan obligations during this period and—along with other factors, such as discount rate changes—played a role in the recent increase in GM's pension liabilities (see fig. 2).

³³For a listing of recent GM attrition programs and their estimated impact on plan liabilities, see appendix III. For a detailed summary of recent GM plant closings, see appendix IV.

³⁴From the perspective of the company's consolidated financial statement, it makes little difference whether payments are made from plan or company assets; but from the participant's perspective, if the level of plan assets has been diminished, it could have a significant impact on future benefits should the plan be terminated.

Figure 2: Trends in GM’s Pension Plans’ Liabilities and Assets



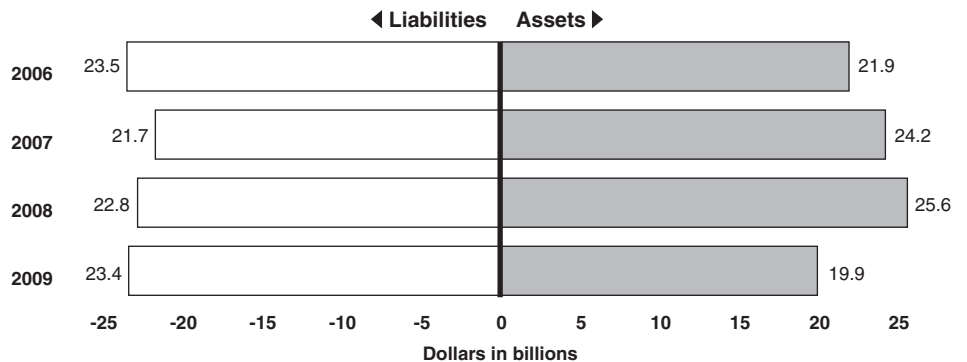
Source: GAO analysis of GM documents for both U.S. qualified defined benefit plans sponsored by GM.

Note: Plan liabilities (based on “projected benefit obligations”) and assets reflect measurements in accordance with Financial Accounting Standards. For each year, the data are as of December 31 of the preceding year. Data include a small amount of obligations (1-2 percent) for GM’s unqualified salaried plan, but are the only GM data publicly available.

Similarly, Chrysler’s downsizing efforts also predate TARP. For example, its decision to eliminate four models within its three primary brands dates back to November 2007, and the company has implemented various attrition programs to accomplish this.³⁵ Due in part to these programs, over the past few years, Chrysler’s pension liabilities have fluctuated while plan assets have been declining (see fig. 3). For example, Chrysler’s UAW plan reported a \$900 million increase in liabilities from 2007 to 2008, and the plan’s 2008 valuation report noted that the cost of special termination benefits during 2008 were nearly \$390 million. Total liabilities for the Chrysler Pension Plan increased by a smaller margin overall from 2007 to 2008, but the plan’s 2008 valuation report noted that nearly \$195 million in additional costs were being recorded due to special early retirements, added service costs, and curtailment loss.

³⁵For a listing of recent Chrysler attrition programs and their impact on plan liabilities, see appendix III. For a detailed summary of recent Chrysler plant closings, see appendix IV.

Figure 3: Trends in Chrysler's Pension Plans' Liabilities and Assets



Source: GAO analysis of Chrysler documents for all U.S. qualified defined benefit plans sponsored by Chrysler.

Note: Plan liabilities (based on “projected benefit obligations”) and assets reflect measurements in accordance with Financial Accounting Standards. For each year, the data are as of January 1 of the year cited.

Other factors that have affected the funded status of both GM’s and Chrysler’s plans are the special arrangements made with other companies in conjunction with acquisitions and divestitures.³⁶ For example, when an auto parts supplier, the former Delphi Corporation, was spun off from GM in 1999, the transaction included a negotiated agreement with various unions for a benefit guarantee for certain employees in the event that Delphi’s hourly pension plan would be frozen or terminated.³⁷ When the company froze its hourly plan on November 30, 2008, as agreed, GM began providing covered employees with up to 7 years of credited service in the GM hourly plan while they continued to work at Delphi. Under this negotiated benefit guarantee, GM also agreed that upon plan termination, once PBGC determined the benefit to be paid subject to its guarantee limits, GM would pay eligible covered employees the difference to “top up” the benefit to the level provided under Delphi’s hourly plan. Following the termination of Delphi’s hourly plan in July 2009, GM estimated that the cost of implementing this benefit guarantee for all covered unions would be approximately \$1.0 billion. In addition to the benefit guarantee for

³⁶Most GM divestitures have resulted in no future pension benefit accruals for the affected employees under the GM plan at the time of divestiture, with only limited impact on the GM plan going forward. See appendix V for a summary of key acquisitions and divestitures since GM and Chrysler were founded.

³⁷According to GM officials, Delphi salaried employees were never eligible for any pension benefit guarantees.

Delphi employees still in the Delphi hourly plan, in the fall of 2008, GM's hourly plan assumed responsibility for \$2.7 billion in liabilities and \$0.6 billion in assets from Delphi's plan, thereby increasing the GM plan's funding deficit by \$2.1 billion.³⁸

When Chrysler was sold by Daimler in 2007, the transaction included an agreement with Daimler to help protect the funded status of Chrysler's pension plans.³⁹ As part of this transaction, PBGC negotiated an agreement whereby Daimler provided a \$1 billion termination guarantee and Chrysler made \$200 million in additional pension contributions. Subsequently, in April 2009, this agreement was replaced by a new arrangement requiring Daimler to begin making annual contributions, even though the plans had not terminated. Under this arrangement, Daimler agreed to make payments totaling \$600 million to Chrysler's pension plans over a 3-year period, with \$200 million due in June 2009, 2010, and 2011. In addition, if the Chrysler pension plans were to terminate before August 2012 and are trusted by PBGC, Daimler is to pay an additional \$200 million to the PBGC insurance program.

Both Automakers Project Large Contributions to Plans Will Be Required within the Next Five Years

Although projections of plan funding are inherently sensitive to underlying assumptions, GM and Chrysler currently estimate that they may need to make large contributions to their pension plans within the next 5 years in order to meet minimum funding requirements.⁴⁰ They also may need to manage the funded status of their plans in order to avoid certain plan benefit restrictions and potential additional liabilities that may occur if the plans are determined to be "at risk."⁴¹

³⁸In exchange for GM's agreement to assume this liability from the Delphi hourly plan, Delphi and its creditors released GM from all potential litigation arising out of the original 1999 Delphi spin off. For further details on the Delphi story, see appendix I.

³⁹Chrysler merged with Daimler-Benz AG in 1998 and was operated as a separate business unit called "Chrysler Group" until it was sold in 2007.

⁴⁰Statutorily prescribed pension funding requirements for single-employer plans specify how much a sponsor must contribute to its defined benefit plans each year. 26 U.S.C. §§ 412 and 430. In general, the minimum required contribution reflects the value of the plan's assets compared with the plan's benefit obligations, as measured by the present value of all benefits accrued or earned as of the beginning of the plan year (the plan's funding target) and the present value of all benefits that are expected to accrue or be earned under the plan during the plan year (the target normal cost).

⁴¹26 U.S.C. §§ 430 and 436.

While useful as indicators of the financial pressures that could lie ahead, the funding projections provided by GM and Chrysler are subject to much uncertainty because of factors that could result in changes in the size or timing of needed contributions to meet future years' funding requirements. For example, projections are particularly sensitive to the future economic environment, especially with respect to future interest rates and asset returns. Also, GM or Chrysler could make additional voluntary contributions to their plans, or funding rules could be affected by changes in legislation.

To strengthen pension funding, the Pension Protection Act of 2006 (PPA) made sweeping changes to plan funding requirements, effective for plan years beginning in 2008.⁴² For example, the act included provisions that raised the funding targets for defined benefit plans, reduced the period for "smoothing" assets and liabilities, and restricted sponsors' ability to substitute credit balances for cash contributions. At the same time, as we have reported previously, the act did not fully close potential plan funding gaps, and it provided funding relief to plan sponsors in troubled industries.⁴³ In addition, in the face of a weakened economy, the Worker, Retiree, and Employer Recovery Act of 2008 provided plan sponsors with further relief from the changes,⁴⁴ as did IRS guidance in 2009 concerning interest rates that could be used to value plan liabilities in some cases.⁴⁵

⁴²Pub. L. No. 109-280, §§ 101-107, 120 Stat. 780, 784-820.

⁴³GAO, *High Risk Series: An Update*, GAO-07-310 (Washington, D.C.: Jan. 31, 2007), 85.

⁴⁴Pub. L. No. 110-458, 122 Stat. 5092.

⁴⁵In March 2009, the IRS issued guidance clarifying that under Notice 2008-21, for a calendar year plan with a January 1, 2009, valuation date, the IRS would not challenge the use of the monthly yield curve for January 2009, or any one of the four months immediately preceding January 2009. Since interest rates were much higher on October 1, 2008, than on January 1, 2009, using the October 1, 2008, yield curve for the discount rate would significantly reduce required contributions for the 2009 plan year. Also, in September 2009, the IRS issued guidance providing automatic approval for a new choice of interest rates for 2010, regardless of what choices were made for earlier plan years (as codified in new regulations effective October 15, 2009).

Legislative proposals that would make additional changes to funding requirements are currently being considered.⁴⁶

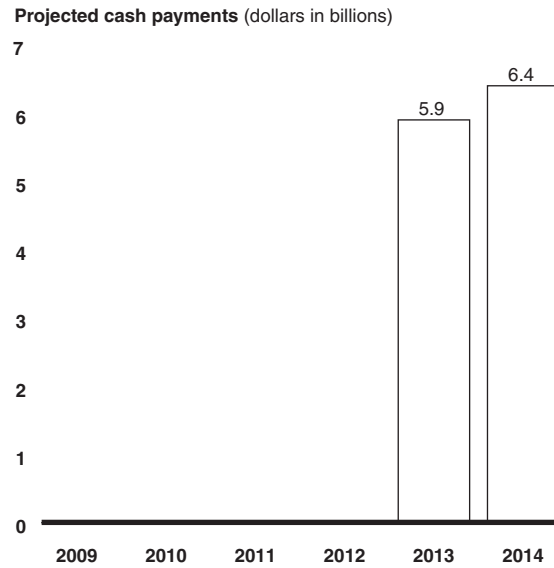
Nevertheless, according to GM's projections utilizing valuation methods defined under PPA, large cash contributions may be needed to meet its funding obligations to its U.S. pension plans beginning in 2013 (see fig. 4). GM officials told us that cash contributions are not expected to be needed for the next few years because it has a relatively large "credit balance" based on contributions made in prior years that can be used to offset cash contribution requirements that would otherwise be required until that time.⁴⁷ As of October 1, 2008, GM had about \$36 billion of credit balance in its hourly plan and about \$10 billion in its salaried plan. However, once these credit balances are exhausted, GM projects that the contributions needed to meet its defined benefit plan funding requirements will total about \$12.3 billion for the years 2013 and 2014, and additional contributions may be required thereafter. In its 2008 year-end report, GM noted that due to significant declines in financial markets and deterioration in the value of its plans' assets, as well as the coverage of additional retirees, including Delphi employees, it may need to make significant contributions to its U.S. plans in 2013 and beyond.⁴⁸

⁴⁶401(k) Fair Disclosure and Pension Security Act of 2009, H.R. 2989, 111th Cong. tit. III (as reported by H.R. Comm. on Ways and Means, July 31, 2009) and American Workers, State, and Business Relief Act of 2010, H. R. 4213, 111th Cong. tit. III (as passed by Senate, March 10, 2010). Yet another factor that could affect funding projections is future labor negotiations. Both GM and Chrysler have plans that are collectively bargained with UAW, and the result of future negotiations could increase or decrease projected liabilities.

⁴⁷26 U.S.C. § 430(f). Credit balances can be earned when a sponsor contributes more to its pension plans than required. Under certain conditions, sponsors can use these balances to offset required contributions until the balances are exhausted. Prior to PPA, credit balances could be augmented because they accrued interest at a rate determined by the plan to reflect the time value of money. PPA delineated two types of credit balances: so-called "carryover balances," generated under prior law, and "prefunding balances," generated after passage of the act. PPA also established certain standards on the use of credit balances, such as a requirement that balances be adjusted based on market conditions. Further, if a plan's funded ratio (determined with a reduction of assets in the amount of any carryover balance) is at least 80%, the plan sponsor may generally use its credit balance to offset any required contribution. The credit balances we refer to with respect to GM and Chrysler are specifically "carryover balances."

⁴⁸The 2008 data on projected cash contributions are the latest publicly available data. GM was to file quarterly and annual financial reports for the period ending December 31, 2009, with the Securities and Exchange Commission by March 31, 2010. However, GM submitted a "notification of late filing" with the Commission and officials told us they plan to file the reports sometime in April 2010.

Figure 4: Projected Calendar Year Contributions to GM's Pension Plans (2009-2014)



Source: GAO analysis of GM planned funding projections for both U.S. qualified defined benefit plans sponsored by GM.

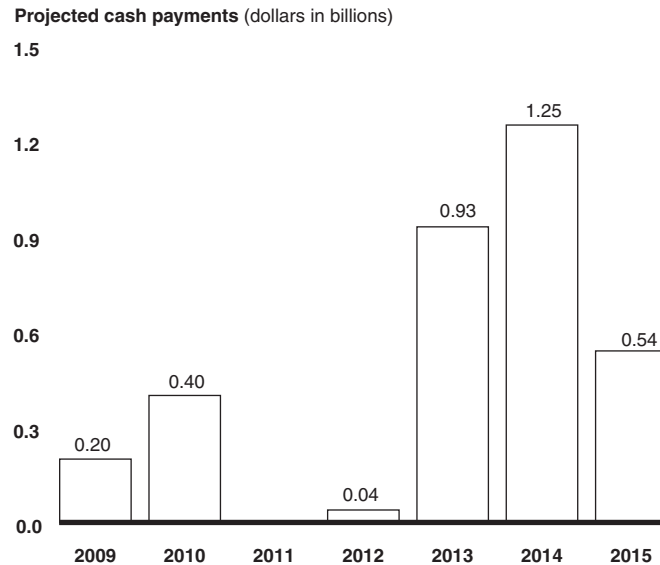
Note: Funding projections reflect audited data as of December 31, 2008 (the most recent publicly available at the time of our study). Projections utilize valuation methods for required contributions defined under PPA, and include any temporary funding relief as provided by the Worker, Retiree, and Employer Recovery Act of 2008.

Similarly, Chrysler's management expects that contributions to meet minimum funding requirements may begin to increase significantly in 2013, but are projected to be relatively minimal until then (see fig. 5). Chrysler, like GM, intends to use credit balances to offset the contribution requirements for some of its plans. As of end-of-year 2009, Chrysler had credit balances of about \$3.5 billion for its UAW Pension Plan and about \$1.9 billion across the other eight plans for which it provided funding information. In addition, Chrysler also has \$600 million in payments from Daimler to help meet its funding requirements over the next few years.⁴⁹ Nevertheless, Chrysler's funding projections reveal that about \$3.4 billion

⁴⁹As noted earlier, Daimler agreed to make installment payments of \$200 million in 2009, 2010, and 2011 (for a total of \$600 million).

in contributions may be needed to meet its funding requirements over the 2009 to 2015 period.⁵⁰

Figure 5: Projected Calendar Year Contributions to Chrysler’s Pension Plans (2009-2015)



Source: GAO analysis of Chrysler planned funding projections for all U.S. qualified defined benefit plans sponsored by Chrysler.

Note: Funding projections include unaudited data for nine of Chrysler’s ten plans provided to GAO in February 2010 (no information was provided for one plan). Projections utilize valuation methods for required contributions defined under PPA. For six of the nine plans with data, the projections explicitly included any temporary funding relief as provided by the Worker, Retiree, and Employer Act of 2008, except for a provision relating to adjustments, or “smoothing,” to the value of plan assets.

In addition, both GM and Chrysler may need to manage the funded status of their plans in order to avoid incurring an “at-risk” status or triggering certain benefit restrictions. If a plan’s funding level falls below certain specified thresholds, then it must use special “at-risk” actuarial assumptions to determine its minimum funding requirements and, in most

⁵⁰Chrysler expected to provide its 2009 audited annual financial statement to Treasury and its other shareholders by April 2010. Chrysler plans to file quarterly and annual financial reports with the Securities and Exchange Commission beginning with its 2010 audited annual financial statements, which will be publicly available.

cases, increase its contributions.⁵¹ For example, the most recent annual funding notice for the GM hourly plan reveals that the plan is in at-risk status for plan year 2008.^{52,53}

Also, if a plan's funding level falls below certain specified thresholds, then certain restrictions may be placed on the benefits provided by the plan, such as lump sum withdrawals and plant shutdown benefits (see table 2).⁵⁴

Table 2: Benefit Restrictions Based on a Plan's Funded Status

If a plan's funded status is: ^a	Then, there is a restriction against:
At least 80 percent, but would be less than 80 percent taking the amendment into account	<ul style="list-style-type: none"> • plan amendments to increase benefits
At least 60 percent, but less than 80 percent	<ul style="list-style-type: none"> • 50 percent benefits paid in a lump sum (i.e., accelerated benefit payments)
At least 60 percent, but would be less than 60 percent, taking the unpredictable contingent event benefit into account	<ul style="list-style-type: none"> • unpredictable contingent event benefits (i.e., shutdown benefits)
Less than 60 percent	<ul style="list-style-type: none"> • future benefit accruals (i.e., accruals are frozen) • all lump sum payments (i.e., accelerated benefit payments) • unpredictable contingent event benefits (i.e., shutdown benefits)

Source: GAO analysis.

⁵¹26 U.S.C. § 430(i). Once it is fully phased in, the test for determining if a plan is at risk will be whether its funding target attainment percentage for the preceding year, not applying at-risk requirements, is less than 80 percent and its funding target attainment percentage for the preceding year, applying at-risk requirements, was less than 70 percent. 26 U.S.C. § 430(i)(4).

⁵²Plans determined to be "at risk" are required to use actuarial assumptions that result in a higher value of plan liabilities and, thus, require additional funding by the plan sponsor. 26 U.S.C. § 430(i)(1)(A)(i) and (i)(1)(B). For example, plans in "at-risk" status are required to assume that all workers eligible to retire in the next 10 years will do so as soon as they can, and that they will take their distribution in whatever form would create the highest cost to the plan, without regard to whether those workers actually do so.

⁵³The notice for the GM's hourly plan covers the plan year beginning October 1, 2008, and ending September 30, 2009. GM's estimated plan funding requirements of \$12.3 billion for the years 2013 and 2014 reflect funding needs for both its hourly and its salaried pension plans combined, including consideration of its hourly pension plan being in "at-risk" status. GM's salaried pension plan is not "at risk."

⁵⁴26 U.S.C. §§ 436(b) and (d).

^aFunded status described here is based on the “adjusted funding target attainment percentage.” This percentage is the ratio of a plan’s assets, reduced by any credit balances, to the value of the plan’s liabilities (referred to as the “funding target attainment percentage”) adjusted by adding the value of certain annuities. Special rules apply in bankruptcy.

Economic Stress in Auto Industry Has Endangered Auto Supplier Pensions

Automaker restructuring, the credit market crisis, and the global recession have created significant economic stress across the auto supply industry. Federal efforts to aid the supply sector through a program that provided GM and Chrysler with funding to guarantee supplier payments benefited the automakers’ top-level direct suppliers, but did little to support component and raw material suppliers. The restructuring of GM and Chrysler amid this difficult economic environment has had a ripple effect throughout the auto supply sector, likely contributing to the recent wave of supplier bankruptcies and pension plan terminations.

Automaker Restructuring and Current Economic Conditions Have Created Significant Financial Stress for Suppliers

The auto supply sector is highly dependent on the success of the automakers that it supplies. For years, the auto supply sector has felt the impact of the problems facing the domestic auto market, including declining vehicle sales, and deep production cuts—resulting in overcapacity within the industry. In 2004, the Department of Commerce reported that the possibility of relying on increased auto sales that automatically translate into increased orders and components for U.S. suppliers no longer existed because U.S. automobile manufacturers had shifted from providing a ready market for many domestic suppliers of parts and components to operating on a global basis. The result of this shift was that automotive parts suppliers had to find niches in the global supply chains of U.S. auto companies or their foreign competitors to succeed.

Many auto suppliers broadened their sales base to remain competitive. With the domestic share of the market in decline, these suppliers diversified their business models to include just-in-time manufacturing capacity or sold their products to multiple automakers in North America, Europe, and Asia. For example, at the time it filed for bankruptcy, the U.S. auto parts supplier, Delphi Corporation, employed more than 185,000 workers in 38 countries in 2004, making it one of the largest suppliers in the world.⁵⁵ Still, according to a 2009 industry report, just 7 of the 29 U.S.-based suppliers listed among the top 100 global suppliers sold the majority of their products in North America. Suppliers serving the large U.S.

⁵⁵For further details on Delphi, see appendix I.

automakers also have considerable overlap, with as many as 80 percent supplying parts to one or more automaker. For example, Chrysler reported that 96 percent of its top 100 suppliers also served either GM or Ford. Similarly, 27 of GM's top 39 suppliers also served as major suppliers for Chrysler. While this crossover allowed suppliers to spread their risk among domestic automakers, the impact of the global economic downturn affected many suppliers, and left suppliers that sold primarily to GM and Chrysler particularly vulnerable when the automakers filed for bankruptcy.

The recent global credit crisis and the rapid decline in auto sales left many of the nation's auto parts suppliers under significant stress with limited access to credit and facing growing uncertainty about their future business prospects. For example, GM's and Chrysler's decision to slow production by temporarily shutting down some U.S. operations in late 2008 led to interruptions in suppliers' operations and cash flow. As a result, many suppliers were left with excess inventory, were not paid for products they had shipped to automakers, and lacked the liquidity needed to settle their debts with their raw material and component suppliers. Concerns over the ability of the organizations to continue operations and, among other things, collect their receivables and pay their bills when due, led some suppliers to receive a "going concern" qualification from their auditors.⁵⁶ Lenders restricted credit and cash flow to suppliers, limiting their liquidity at the time when it was needed most. With limited cash flow, the suppliers experienced increasing pressure from their raw material and component suppliers. According to Chrysler, 43 percent of its suppliers had received requests from their suppliers for some form of payment term compression. Chrysler recognized the liquidity shortfall in the supplier network as a significant threat to its successful restructuring, and identified supplier insolvencies and supply chain disruptions as key risks to the critical assumptions in its restructuring plan. Another industry report indicated that at least 500 suppliers in North America (or 30 percent of the estimated 1,700 direct suppliers in the U.S.) may be at high risk of insolvency due to the effect of reduced volumes and the lack of credit availability. This credit crunch also affected bankrupt companies, which found securing financing to restructure their companies increasingly difficult.

⁵⁶A "going concern" qualification is a reflection of the auditor's substantial doubt of the audited company's ability to remain in operation. Organizational weaknesses including overcapacity and high wage agreements, when combined with questions about their ability to continue as a going concern may have the effect of triggering loan and bond defaults and making it difficult for suppliers to raise new capital.

Federal Assistance Program Helped Avert Catastrophe, but Provided Limited Support to Smaller Suppliers

In an effort to help stabilize the auto supply base, in March 2009, also under TARP, Treasury established the Auto Supplier Support Program, which initially dedicated up to \$5 billion in government-backed guarantees to GM and Chrysler for supplier payments in order to give suppliers the confidence they needed to keep shipping parts, paying their employees, and continuing operations. Treasury had rejected appeals from the auto supply sector for direct aid to assist a broader portion of the supplier industry because, according to Treasury officials, it had become clear that the vast network of suppliers had to engage in a substantial restructuring and capacity reduction to achieve long-term viability. The program was to ensure that GM and Chrysler received the parts and components they needed to manufacture vehicles and suppliers had access to credit from lenders. Under the program, any supplier that shipped directly to GM or Chrysler on qualifying commercial terms could be eligible to participate. Treasury left it up to the automakers to determine which suppliers qualified for the assistance. According to GM, 74 percent of its 1,300 suppliers were eligible for the program, but only 28 percent of its suppliers (38 percent of its eligible suppliers) received funds under the program.⁵⁷ Nearly half of the \$947.8 million in program funds that GM dispersed went to 31 of its top 40 suppliers.⁵⁸ Shortly after the program began, Treasury reduced the amount of funding available under this program to \$3.5 billion, at the request of the automakers. According to Treasury officials, the automakers made this request because conditions had changed: they no longer needed to maintain their prebankruptcy supply capacity, credit markets had opened up, and suppliers' access to capital had improved.

The program, as administered, helped a portion of the industry survive the downturn in production and vehicle sales, but did little to improve supplier access to traditional sources of capital, according to a leading auto supply industry group. The group noted that the program supported suppliers by making funds available to purchase receivables for parts

⁵⁷In a hearing before the Senate Committee on Banking, Housing, and Urban Affairs in October 2009, a representative of nearly 700 parts suppliers testified that administrative obstacles, bank restrictions, and limitations on the types of receivables eligible for assistance had created a significant gap between those suppliers eligible to participate and those suppliers able to participate in the program. Restoring Credit to Manufacturers: Hearing Before the S. Comm. on Banking, Housing and Urban Affairs, 110th Cong. (2009) (statement of David Andrea, Vice President, Industry Analysis and Economics, Motor and Equipment Manufacturers Association).

⁵⁸According to GM, the 31 top suppliers that participated in the Treasury program accounted for less than 2 percent of GM's North American 2009 adjusted present value.

already shipped by participating suppliers, but that many troubled suppliers who had no outstanding debts to the automakers were excluded. According to Treasury officials, the program was not designed to address liquidity for troubled suppliers who were unable to move their inventory and had no receivables, including from GM and Chrysler, due to the extended shutdowns at the manufacturing plants. However, the group also noted that the suppliers who participated in the program were generally satisfied with the outcome, and that the supply sector as a whole believed that without the government's action, the effect of automakers' restructuring would have been catastrophic for suppliers.

Suppliers Have Experienced a Wave of Bankruptcies and Pension Plan Terminations

Bankruptcy reorganizations and liquidations occur frequently in the volatile automotive supply sector, but the number of bankruptcies has recently increased. Some suppliers have gone bankrupt multiple times in a decade, while other suppliers have remained in bankruptcy proceedings for years before successfully emerging as a new entity. For example, the "new Delphi" (Delphi Automotive, LLP) emerged in 2009 after the former Delphi had been in bankruptcy proceedings for 4 years. Auto suppliers experienced a rise in the number of bankruptcies, liquidations, and pension plan terminations in 2008 and 2009. In November 2009, a survey by the Original Equipment Suppliers Association (Association)—a leading auto supply industry group—found that a majority of suppliers anticipated a 20 percent decline in their revenue and operating profits on a year-to-year basis. The Association also reported that at least 43 U.S. based auto suppliers had filed for Chapter 11 bankruptcy protection between January and December 2009. Moreover, it was reported that an additional 200 U.S. suppliers had begun the liquidation process by selling off their assets to other suppliers or private equity companies. Chrysler reported that the proportion of its suppliers that were financially troubled had more than doubled, from 10 percent in October 2008 to 22 percent in February 2009, with the troubled suppliers accounting for \$6.6 billion of the company's annual business. In addition, in the summer of 2009, a consultant group estimated that as many as 30 percent of North American suppliers were at high risk of failure. According to Treasury officials, many of Chrysler's troubled suppliers had difficulty accessing credit because of their concentrated exposure to Chrysler.

In the summer of 2009, the auto supply sector was also expected to shrink significantly through mergers and consolidation in order to survive. According to the Association's survey of its membership in June 2009, auto suppliers were operating at 46.4 percent capacity. In its restructuring plan, Chrysler stated that industry conditions required substantial and coordinated restructuring of the supply base, and that automakers must

concentrate their business in “surviving” suppliers. GM projected a 30 percent reduction in the number of suppliers, stating that such compression would allow GM to build and manage a competitive supply base. Several industry consultants noted that the path to long-term viability would require suppliers to reduce their number by 30 to 40 percent and secure more business from Asian and European transplant automakers. However, by early 2010, there were signs that the economic conditions for suppliers may have begun to stabilize. The Association’s January 2010 and March 2010 surveys of its membership reported increased optimism across the sector, especially among larger companies.

Many U.S.-based auto suppliers sponsor defined benefit plans that are insured by PBGC. Each company failure could potentially result in PBGC having to assume responsibility for its pension plans, and PBGC officials told us that they are monitoring about 35 large auto suppliers. Even before last year’s restructuring of GM and Chrysler, suppliers (like many other employers) were experiencing significant underfunding of their defined benefit plans. Table 3 shows 18 auto suppliers we identified that reported a combined \$14.9 billion in unfunded pension liabilities in 2008.

Table 3: Funded Status of Selected Suppliers’ Defined Benefit Pension Plans (2008)

Dollars in millions		
Supplier name	In bankruptcy proceedings in 2009	Unfunded pension liabilities
Delphi Corporation	X ^a	\$5,264.0
Honeywell International		3,526.0
Goodyear Tire & Rubber		2,129.0
Eaton Corporation		1,614.0
Johnson Controls, Inc.		402.0
TRW Automotive Holdings		361.0
Visteon	X	326.0
Lear Corporation	X	254.7
American Axle and Manufacturing Holdings, Inc.		254.5
Tenneco, Inc.		169.0
Dana Holding Corporation		149.0
Cooper-Standard Holdings	X	89.1
BorgWarner, Inc.		87.1
Hayes Lemmerz International	X ^a	70.8

Dollars in millions		
Supplier name	In bankruptcy proceedings in 2009	Unfunded pension liabilities
Dura Automotive Systems, Inc.		65.3
ArvinMeritor, Inc.		42.0
Modine Manufacturing Company		35.3
Accuride	X	26.8
Total		\$14,865.6

Source: GAO analysis of recent corporate annual reports and filings. Data are for fiscal years ending in 2008 or 2009.

^aSuppliers with pension plans that have been terminated and trusteeed by PBGC.

In 2009, several of GM and Chrysler’s suppliers filed for bankruptcy, and in some cases, PBGC intervened and assumed trusteeship of the companies’ defined benefit plans. For example, in July 2009, PBGC terminated and assumed responsibility for the pension plans of 70,000 workers and retirees of the former Delphi Corporation, citing Delphi’s inability to afford to maintain the plans. More specifically, according to PBGC officials, the key factors that led to this action were Delphi’s failure to fund its pensions during bankruptcy, and the company’s imminent sale and liquidation of its assets as it left bankruptcy protection. Other suppliers avoided bankruptcy, but still felt the effects of the slumping auto industry. For example, American Axle and Manufacturing Holdings, Inc., an auto part supplier that narrowly averted bankruptcy in 2009, estimated that the GM and Chrysler factory shutdowns had cost the company \$100.6 million in sales and \$29.3 million in operating income.

While some recent reports have indicated that the outlook for the automakers and suppliers may be improving, the ability of suppliers to fund their defined benefit plans in the future will rest, in part, on the continued viability of the automakers. Moreover, any revival in the auto supply sector may come too late for workers who have already had their pension plans terminated and their benefits reduced to the PBGC benefit guarantee levels.⁵⁹

⁵⁹For further details on PBGC’s guaranteed benefit limits, see appendix II.

Both PBGC and Plan Participants Incur Losses when Underfunded Plans Are Terminated

When an underfunded defined benefit plan is terminated, the PBGC bears the costs of any unfunded liabilities up to the guaranteed benefit amounts defined by ERISA, while plan participants bear the loss of benefits beyond these guaranteed amounts that would go unpaid.⁶⁰ According to Treasury officials, there is no indication that any of GM's or Chrysler's defined benefit plans will be terminated. Nevertheless, to hypothetically examine the potential impact if their plans were to be terminated, we explored how PBGC and plan participants would have been affected had the plans been terminated when these companies filed for bankruptcy in 2009, and the factors at play that could change that picture if the plans were to be terminated 5 years later.

PBGC's Exposure Signals Potential Impacts on Both its Deficit and its Resources

Following the termination of an underfunded defined benefit plan, PBGC generally incurs losses that affect its deficit, as well as its resources. With respect to its deficit, the amount of loss to the single-employer fund is equal to the value of the unfunded guaranteed benefits required to be paid under ERISA.⁶¹ Although this is generally considerably less than the total value of unfunded liabilities in a large auto sector pension plan, the loss can still be substantial. With respect to its resources, PBGC must assume responsibility for administering the terminated plan, including continuing benefit payments to retirees, determining the assets and liabilities of the plan as of the date of termination, calculating the guaranteed and nonguaranteed benefit amounts owed each participant in the plan, and keeping participants informed. When plans are large and complex, this can be an enormous task, requiring years to complete.

⁶⁰This describes the situation when an underfunded defined benefit plan covered by PBGC's single-employer insurance program is terminated and benefits are paid subject to certain limits. 29 U.S.C. § 1322. If a plan is covered by PBGC's multiemployer insurance program, PBGC will provide financial assistance, but it will not trustee the plan or pay unfunded guaranteed benefits. 29 U.S.C. § 1341a. Also, while PBGC insures most defined benefit plans, it does not insure some categories, such as defined benefit plans sponsored by governments or churches. In addition, PBGC does not insure defined contribution plans. 29 U.S.C. § 1321(b)(1)-(3).

⁶¹29 U.S.C. § 1361.

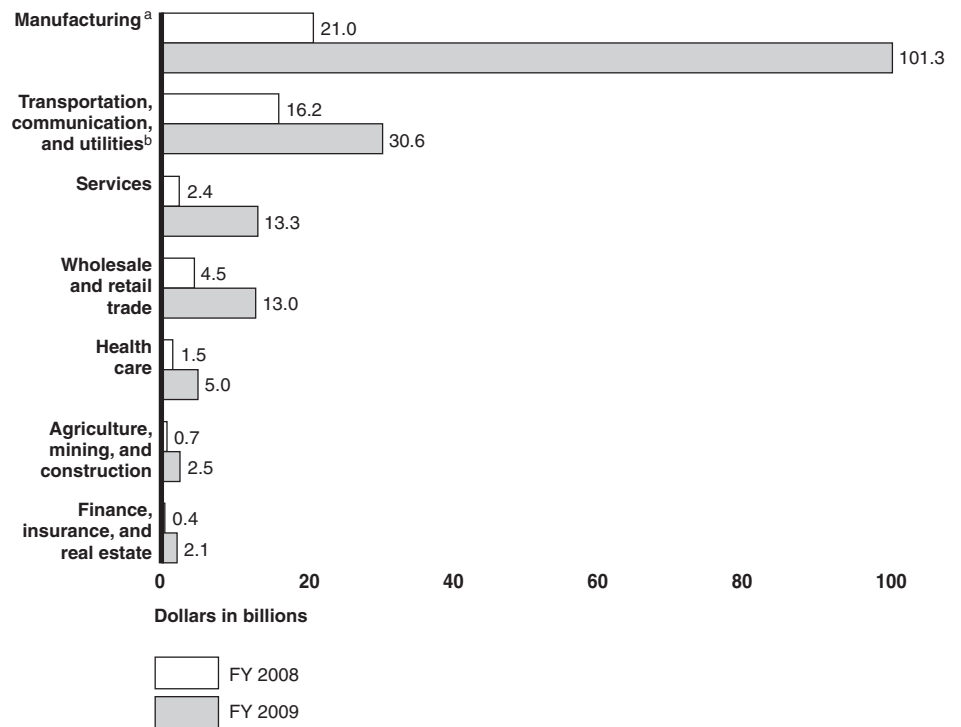
PBGC's Deficit-Related Exposure

Each year, PBGC assesses its exposure to losses from underfunded pension plans sponsored by financially weak companies. Its estimates of exposure are based on companies with credit ratings below investment grade or that meet one or more of the criteria for financial distress. PBGC classifies the plans sponsored by these companies as “reasonably possible” terminations.⁶² At the end of fiscal year 2009, PBGC estimated that its exposure from reasonably possible terminations was approximately \$168 billion, up from \$47 billion a year earlier.⁶³ A significant part of this increase was due to the dramatic increase in exposure related to manufacturing, which PBGC attributed primarily to changes in the auto industry, as well as primary and fabricated metals (see fig. 6).

⁶²For PBGC to classify a plan as a “reasonably possible” termination, it must have \$5 million or more of underfunding, as well as meet additional criteria, such as that it has filed for bankruptcy, has requested a funding waiver, has missed a minimum funding contribution, or has a bond rating that is below-investment grade for Standard & Poor’s or Moody’s. At even higher risk are those companies PBGC classifies as “probables,” which are those that PBGC deems likely to terminate in the future. For more information on this topic, see GAO, *Private Pensions: Questions Concerning the Pension Benefit Guaranty Corporation’s Practices Regarding Single-Employer Probable Claims*, [GAO-05-991R](#) (Washington, D.C.: Sept. 9, 2005).

⁶³PBGC’s exposure to loss ultimately may be less than these amounts because of the limits on guaranteed benefits, as specified under ERISA and related regulations (see appendix II). However, calculations taking into account these limits are not specifically factored into PBGC’s estimates of exposure, *per se*, because it is difficult to prospectively determine the precise extent and effect of the limits prior to a plan’s actual termination.

Figure 6: PBGC's Estimate of Possible Exposure to Loss by Industry



Source: PBGC 2009 Annual Report.

^aFor fiscal years 2008 and 2009, manufacturing exposure was primarily from automobiles, auto parts, and primary and fabricated metals.

^bFor fiscal years 2008 and 2009, transportation exposure was primarily from airlines.

In May 2009, PBGC reported that unfunded pension liabilities across the auto industry as a whole totaled about \$77 billion as of January 31, 2009, and accounted for about \$42 billion of PBGC's total exposure of \$168 billion.⁶⁴ This means that, should all the auto industry's underfunded plans insured by PBGC be terminated and trusteed, PBGC would be required to cover about \$42 billion of the benefit amounts promised, adding to its deficit. Between the end of fiscal years 2008 and 2009, the deficit in

⁶⁴PBGC calculates estimates of exposure by using information such as the reports submitted to IRS and corporate annual reports. Although guaranteed benefit limit calculations are not part of PBGC's estimate of its exposure, *per se*, its estimate nevertheless attempts to approximate the losses it would incur under ERISA upon a plan's termination. 29 U.S.C. § 1361. Also, PBGC officials noted that these estimates can change substantially over time due to volatility in discount rates and plan asset values.

PBGC's single-employer insurance program doubled in size from \$10.7 billion to \$21.1 billion.⁶⁵ Should all the underfunded auto industry plans fail, PBGC's January 2009 estimate indicated that its end of fiscal year 2009 deficit could triple in size. An increase of this magnitude would have implications not just for PBGC's accumulated deficit, but for its overall funding going forward, as the auto industry is responsible for contributing a significant portion of PBGC's premiums each year. According to PBGC's most recent data book, the motor vehicle equipment industry accounted for about 1.2 percent of all insured plans under the single-employer insurance program in 2007, but 6.1 percent of all insured participants and 7.3 percent of all premiums.

With respect to PBGC's exposure for GM's and Chrysler's pension plans in particular, PBGC calculated its potential exposure prior to when the new companies assumed sponsorship of the plans. Before the change in sponsorship, PBGC estimated that its exposure for GM's unfunded guaranteed benefits would be about \$9.0 billion, and that its exposure for Chrysler's unfunded guaranteed benefits would be about \$5.5 billion (see table 4).

Table 4: PBGC's Estimates of Potential Exposure for GM's and Chrysler's Pension Plans in Early 2009

(Dollars in billions)

	Estimated unfunded benefit liabilities	Estimated unfunded guaranteed benefit liabilities	Estimated unfunded nonguaranteed benefit liabilities	Estimated number of participants
GM	\$27.3	\$9.0	\$18.3	673,286
Chrysler	10.4	5.5	4.9	249,251
Total	\$37.7	\$14.5	\$23.2	922,537

Source: PBGC estimates, calculated on a termination liability basis.

Notes: GM estimates are as of January 31, 2009; Chrysler estimates are as of April 30, 2009—the most recent PBGC estimates available. Totals exclude pension plans that are fully funded. PBGC officials note that volatility in plan asset returns and valuation discount rates may cause significant changes in these estimates over time.

⁶⁵PBGC holds assets in two categories of funds: the trust funds and the revolving funds. The trust funds hold assets acquired from terminated plans; the revolving funds consist of premium receipts. Separate funds are maintained for the single-employer and the multiemployer programs. 29 U.S.C. § 1305.

Even without the change in sponsorship, actual losses to PBGC could be substantially different, as estimates of exposure are inherently difficult to calculate. For example, the significant volatility in plan underfunding and sponsor creditworthiness over time makes long-term estimates of PBGC's expected claims difficult. Moreover, there is a time lag in making these estimates. Estimates of exposure are generally based on company reports filed as of December 31 of the previous year. Thus, the dramatic increase in PBGC's aggregate reasonably possible exposure between fiscal years 2008 and 2009 depicted in figure 6 was primarily due to the deterioration of credit quality and poor asset returns that occurred during calendar year 2008. Subsequent changes in economic conditions (such as the steady rise in equity returns since March 2009) were not yet reflected in these estimates. In addition, actual losses due to terminated plans depend on PBGC's liability only for unfunded guaranteed benefits, but this is not factored into the estimates because it is difficult to determine the extent and effect of the limits on guaranteed benefits prior to actual termination.⁶⁶

However, PBGC's exposure for unfunded guaranteed benefits in the auto supply sector has already begun to materialize. Over the past year, the plans of several large suppliers were terminated and trusteed by PBGC, and PBGC estimates that the unfunded guaranteed benefits that it will be required to pay to participants in the plans of these large suppliers will exceed \$6.6 billion (see table 5). The estimate for the pension plans of the former Delphi Corporation alone is over \$6.2 billion.

Table 5: Auto Supplier Pension Plans Terminated and Trusteed by PBGC, May 2009–January 2010

(Dollars in millions)

Supplier	Estimated unfunded benefit liabilities	Estimated unfunded guaranteed benefit liabilities	Estimated unfunded nonguaranteed benefit liabilities	Estimated number of participants
Delphi Corporation				
• Hourly Plan	\$4,500.0	\$3,800.0	\$700.0	47,176
• Salaried Plan	2,700.0	2,200.0	500.0	20,203
• Other plans	65.0	60.0	5.0	2,229

⁶⁶Following termination of a plan insured under the single-employer program, the net liability assumed by PBGC is equal to the present value of the future guaranteed benefits payable by PBGC less amounts provided by the plan's assets and amounts recoverable by PBGC from the plan sponsor and members of the plan sponsor's controlled group, as defined by ERISA. 29 U.S.C. § 1301(a)(14).

Supplier	Estimated unfunded benefit liabilities	Estimated unfunded guaranteed benefit liabilities	Estimated unfunded nonguaranteed benefit liabilities	Estimated number of participants
Metaldyne Corporation	157.0	153.0	4.0	10,771
Hayes-Lemmerz International	94.4	93.7	0.7	4,786
Foamex LP	79.0	76.0	3.0	5,504
Fluid Routing Solutions Inc.	29.7	24.9	4.8	2,400
Proliance International, Inc.	17.0	17.0	0.0	1,620
Contech U.S., LLC	13.6	12.0	1.6	532
Stant Manufacturing, Inc.	9.0	8.9	0.1	900
Total	\$7,664.7	\$6,445.5	\$1,219.2	96,121

Source: GAO analysis of PBGC estimated data for each plan as of February 2010.

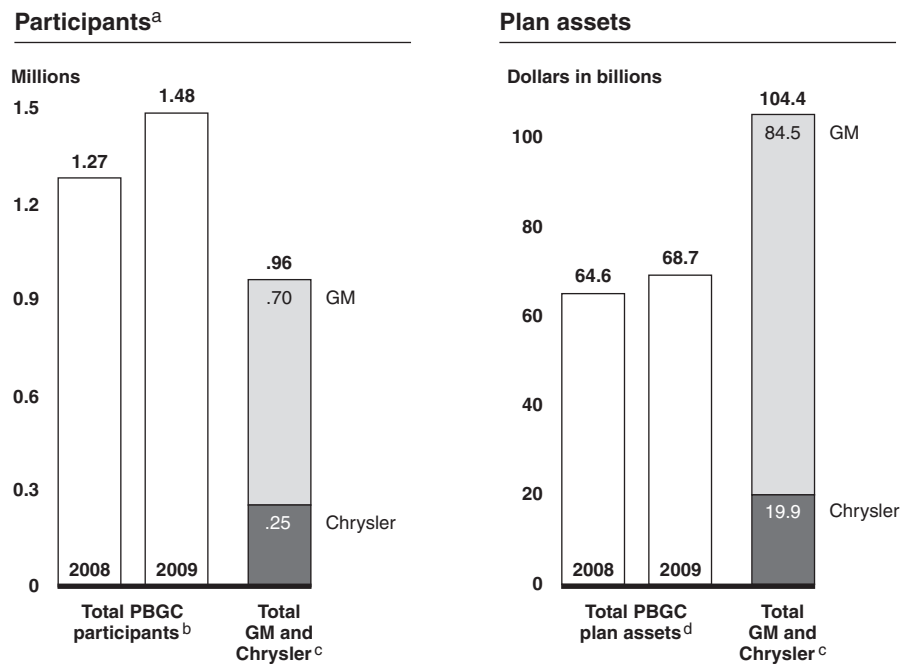
To help protect against further exposure, according to PBGC's 2009 annual report, the agency was continuing to monitor the auto industry and negotiate settlements for additional pension protections in several auto-related corporate downsizing cases. For example, in the case of Visteon Corporation, a large automotive supplier, PBGC negotiated an agreement in January 2009 that required Visteon to provide over \$55 million in additional protections to workers at closed facilities by making cash contributions to the plan, a letter of credit to PBGC, and a guaranty by certain affiliates of certain contingent pension obligations. Similarly, in the case of Cooper Tire & Rubber Company, PBGC negotiated a deal in August 2009 that required the plan sponsor to strengthen the plan by \$62 million, in connection with a plant closing in Albany, Georgia. According to PBGC, such protections can help prevent plan termination or, in the event that the plan does terminate, reduce the losses to the insurance program and participants.⁶⁷

⁶⁷29 U.S.C. § 1362(e), which authorizes PBGC to assess plan liability when there is a substantial cessation of operations by an employer.

PBGC's Resource-Related Exposure

If PBGC were to become trustee of GM's and Chrysler's auto plans, the impact on its resources would be unprecedented. As illustrated in figure 7, the number of participants and trust fund assets that PBGC is responsible for managing would increase dramatically. Moreover, in addition to their sheer size, these plans have many of the characteristics that contribute to complexity and delays in processing, such as a history of mergers, complicated benefit formulas, movement of participants and assets across plans, and large numbers of participants subject to one or more of the legal limits on guaranteed benefits.⁶⁸

Figure 7: Size of GM's and Chrysler's Plans Compared with Total PBGC-Trusteed Plans



Source: GAO analysis of PBGC and automakers' documents.

^aParticipant data for PBGC and the automakers is summed by plan; therefore, employees who participate in more than one plan are counted multiple times.

^bPBGC data includes participants in all plans terminated and trustee under the single-employer insurance program. (A very small number of payees—fewer than 200—are from multiemployer plans that were terminated and trustee prior to October 1980. Since October 1980, PBGC no longer assumes trusteeship or pays benefits to participants of terminated multiemployer plans.)

⁶⁸See GAO, *Pension Benefit Guaranty Corporation: More Strategic Approach Needed for Processing Complex Plans Prone to Delays and Overpayments*, [GAO-09-716](#) (Washington, D.C.: Aug. 17, 2009).

⁶Automaker data include all U.S.-based defined benefit plans under each company's sponsorship. GM's participant data are as of September 30, 2008, and Chrysler's participant data are as of January 1, 2008 (most recent data available). Data on plan assets reflect measurements in accordance with Financial Accounting Standards. GM data are as of December 31, 2008; Chrysler data are as of January 1, 2009.

⁹PBGC data includes assets for all plans terminated and trusteeed under the single-employer insurance program.

Among plans terminated and trusteeed by PBGC, the average number of participants per plan is just under 1,000,⁶⁹ but most of GM's and Chrysler's plans far exceed this average. For example, as of the end of September 2008, GM's hourly plan had over 500,000 participants, and its salaried plan had nearly 200,000. Based on counts as of the beginning of 2008 (the most recent available), Chrysler's UAW Plan had about 135,000 participants, and the Chrysler Pension Plan had about 44,000 participants. Only two of Chrysler's ten plans had less than 1,000 participants. Taken together, the number of participants in these two companies' pension plans is equal to about 40 percent of all the participants in all the plans terminated and trusteeed by PBGC since the agency was established in 1974. Even more striking, taken together, the amount of assets in these two companies' pension plans exceeds—by a considerable margin—the total amount of assets that PBGC is currently managing for all the plans it has trusteeed combined (see fig. 6).

In addition to their large size, GM's and Chrysler's plans have many of the characteristics that, as delineated in a previous report,⁷⁰ contribute to complexity and delay in processing. For example, both GM and Chrysler have long histories of acquisitions, mergers, and divestitures, stretching over the past century (see appendix V). To determine the potential impact on any current or future retirees or beneficiaries of the plan, documentation concerning each change must be obtained, along with data about any affected employees. An employee's movement from one plan to another also can cause complexity in benefit calculations. Even within a plan, tiers can be created that treat some employees differently and make benefit calculations more complicated. For example, at both GM and Chrysler, different formulas were created for employees based on such things as the date employees began participating in their plans or whether or not they contributed to their plans.

⁶⁹GAO-09-716.

⁷⁰GAO-09-716.

Delays also result when PBGC must adjust participants' benefits to comply with legal requirements. PBGC guarantees participants' benefits only up to certain limits, specified under ERISA and related regulations.⁷¹ Among GM's and Chrysler's plans, certain provisions and characteristics of participants suggest that many would likely be subject to one or more of these limits should the plans be terminated, as discussed further in the next section. Recent changes in the law added new provisions concerning the treatment of certain events, such as plant shutdowns and attrition programs (referred to as "unpredictable contingent events").⁷² PBGC has begun to grapple with some of these complexities following the termination of the Delphi plans, as many of the benefits provided by the Delphi plans reflect negotiations with UAW and are similar to benefits provided by UAW plans across the auto sector.

In its 2009 annual report, PBGC noted that it has been taking steps to prepare for the possible trusteeship of large auto industry plans by defining the changes to its infrastructure that would be needed to handle the increase in workload. The types of changes examined as part of this effort included expanded contracts, additional staff, and increased capacity in its information technology system.

High Earners and Early Retirees Are Most At Risk for Reduced Benefits

When ERISA's guarantees do not cover all pension benefits promised by an underfunded plan that is terminated, those participants whose benefits are reduced share in the losses from the plan's termination. In many cases involving terminated and trustee plans, participants' full benefit amounts are guaranteed and their benefits are not reduced as a result of the termination. But in cases involving complex plans with generous benefit structures such as GM's and Chrysler's, large numbers of participants are likely to have benefits subject to the guarantee limits and, depending on the extent of plan underfunding at termination, these participants would be at risk of having their benefits reduced as a result. When PBGC calculated its exposure across the auto sector as a whole in January 2009—prior to the shift in sponsorship of GM's and Chrysler's plans to the

⁷¹29 U.S.C. § 1322(b)(1), (3) and (7), and 29 C.F.R. §§ 4022.21, 4022.24 and 4022.25 (2009). These guarantee limits are commonly referred to as the maximum limit, the "accrued-at-normal" limit, and the phase-in limit. For further details, see appendix II.

⁷²PPA amended ERISA to provide a special phase-in rule for shutdown benefits and other unpredictable contingent event benefits. 29 U.S.C. § 1322(b)(8). PBGC intends to issue a separate rule to implement this section of the law, but the proposed rule has not yet been published.

new companies—PBGC estimated that about \$35 billion in unfunded liabilities would be nonguaranteed benefits; that is, plan participants would bear losses for about \$35 billion in benefits not funded by the company and not guaranteed by PBGC if all the at-risk underfunded plans across the sector were terminated. Of this \$35 billion, about half (\$18 billion) was attributable to GM's plans, and another \$5 billion was attributable to Chrysler's plans.

Participants most often affected by the application of guaranteed benefit limits are high earners whose benefits exceed the maximum limit,⁷³ those who take early retirement, and those whose benefits increased due to recent plan amendments. We were unable to obtain precise data on the number of GM and Chrysler plan participants whose benefits might be reduced due to these limits; however, GM and Chrysler pension plans provide several options for early retirement, with supplemental benefits to those who retire before age 62 as a bridge to Social Security benefits. Under one type of guarantee limit (the accrued-at-normal limit),⁷⁴ any supplements being provided to retirees as of the date of plan termination, and any supplements to be provided to future retirees, would not be guaranteed. According to PBGC officials, a significant number of GM and Chrysler participants could be vulnerable to having their benefits reduced due to this limit should the pension plans be terminated. In addition, retirees whose benefits reflect increases in the 5 years prior to the date of plan termination could be subject to another type of guarantee limit (the phase-in limit).⁷⁵ For example, if GM's and Chrysler's plans had been terminated in 2009, this limit would have affected the increases in benefits provided in the 2007 UAW contracts negotiated with both GM and Chrysler, causing only a part of those increases to be guaranteed.⁷⁶ The

⁷³In 2009, the maximum monthly guarantee limit for those age 65 with no survivor benefit was \$4,500, or \$54,000 annually. Retirees who are under age 65 as of the date of plan termination could be subject to a maximum limit on their monthly benefit that is considerably lower. For example, in 2009, the monthly maximum limit for a retiree age 60 was \$2,925, and for a retiree age 50, just \$1,575.

⁷⁴For more details about the accrued-at-normal limit, see appendix II.

⁷⁵For more details about the phase-in limit, see appendix II.

⁷⁶In addition, this limit would have eliminated the additional \$300 monthly benefit provided to certain post-65 retirees and surviving spouses in GM's salaried plan in exchange for elimination of their company-sponsored retiree health care.

increases included as benefit enhancements offered as part of recent attrition programs would be subject to the phase-in limit, as well.⁷⁷

Although many participants would likely lose some portion of their nonguaranteed benefits if the automakers' plans were terminated, not all would be at equal risk. This is because when a pension plan is terminated and trustee by PBGC, ERISA specifies that the remaining assets of the plan and any funds recovered for the plan from company assets be allocated to participant benefits according to a certain priority order (see appendix VI).⁷⁸ Due to this allocation process, if GM and Chrysler plans were terminated, participants who were retired (or eligible to retire) for at least 3 years would be most likely to have some or all of their nonguaranteed benefits paid, while those participants who retired early—especially those who retired under one of the special attrition programs—would be most at risk for having their benefits reduced.⁷⁹

Passage of Time Would Shift Termination Losses for PBGC and Plan Participants

The exposure to loss from plan termination would shift over time, but it is unclear whether PBGC or plan participants would be better off as a result. Hypothetically, if plans were to terminate 5 years into the future—in 2014 instead of 2009—overall losses could either increase or decrease, and how those losses would be shared between PBGC and plan participants would likely shift as well. For example, plan assets could grow or diminish over time, depending on investment returns and employer contributions. Plan liabilities could also grow or diminish over time, depending on interest rates, ages of participants, and whether benefits are revised in future years. In addition, more participants could acquire vested benefits over time, increasing liabilities; while more benefits would have been paid over time, decreasing liabilities.

How the losses due to unfunded benefits would be shared between PBGC (for guaranteed benefits) and plan participants (for nonguaranteed

⁷⁷For a list of recent GM and Chrysler attrition programs, see appendix III.

⁷⁸29 U.S.C. §§ 1322(c) and 1344.

⁷⁹After benefits derived from employee contributions are paid, benefits of those retired (or eligible to retire) for at least 3 years are given priority status in this allocation process (priority category 3). In terminations of large complex plans, plan assets typically are depleted with the payment of benefits in this priority category. (See [GAO-09-716](#), table 4.) For PBGC's example benefit calculations that illustrate how termination of the automaker pension plans might impact participant benefits, see appendix VII.

benefits) could also shift over time. For example, participants' monthly amount of guaranteed benefits would increase over time for three main reasons: (1) more workers would be eligible to retire with more generous benefits, based on years of service; (2) the maximum limits are updated each year and thus would increase, and people would grow older, so the cutbacks due to this limit would grow smaller; and (3) the benefit reductions due to the phase-in limit would be phased out. This increase in the monthly amount of guaranteed benefits would tend to shift costs from participants to PBGC. Meanwhile, over time, more participants will have been retired (or eligible to retire) for 3 years or more, and thus have benefits eligible for higher priority status in the asset allocation process.⁸⁰ In addition to shifting the distribution of benefits to be paid among different groups of participants, this could also cause more of the plan's remaining assets to be allocated to guaranteed benefits within this priority category, with less available to cover nonguaranteed benefits, resulting in a shift in costs from PBGC to plan participants.

Taking all these factors into account, it is unclear whether the passage of time would increase or decrease the overall cost of unfunded guaranteed benefits to be paid by PBGC compared with the loss of unfunded nonguaranteed benefits to be borne by plan participants. Clearly, improvements in the financial well-being of the companies and their pension plans would serve the best interests of both PBGC and plan participants.

⁸⁰For examples of this impact on participant benefits, see appendix VII.

Balancing Multiple Federal Roles May Create Tensions and Challenges

As a result of GM's and Chrysler's restructuring, the federal government has assumed new roles vis-à-vis the automakers as part-owner and lender, in addition to its traditional role as pension regulator.⁸¹ On behalf of the U.S. taxpayer, Treasury has an interest, as a shareholder, in the financial well-being of the companies, as well as the viability of their pension plans.⁸² These interests may diverge at times. Although Treasury has established policies designed to separate these interests, the perception of a conflict could arise, for example, should choices need to be made regarding the allocation of funds from the companies to their pension plans.

Treasury Has Established Various Structures to Mitigate Any Risk Related to Conflicts

Under normal circumstances, transparency and disclosures to the public related to agency actions can often mitigate risks related to conflicts of interest. But, in this case, because this involves private companies and business sensitive information, Treasury is less able to rely on transparency and disclosure in its dealings with the automakers to mitigate any potential conflicts of interest. Nevertheless, as we have previously reported, what Treasury's goals are for its investment in Chrysler and GM, among other things, is important information for Congress and the public to have.⁸³ Although Treasury provides public information on TARP activities, including AIFP, through its legally mandated monthly reports to Congress, transaction reports, and others, these reports do not provide information on the indicators Treasury may use in assessing the goals for its auto investments and the status of the automakers' pensions. Identifying these indicators for Congress, and sharing as much of this information as possible, while still respecting the sensitivity of certain business information, could help Congress and the public better understand whether the investment in

⁸¹The IRS oversees the tax qualified status of pension plans and the Secretary of the Treasury serves as one of the three members on PBGC's board of directors. 26 U.S.C. § 401(a) and 29 U.S.C. § 1302(d). In addition, PBGC provides insurance for most private defined benefit plans. 29 U.S.C. § 1321.

⁸²Previous reports have discussed the conflicts of interest that could be created by having the government both regulate and hold an ownership interest in an institution or company. See GAO, *Troubled Asset Relief Program: The U.S. Government Role as Shareholder in AIG, Citigroup, Chrysler, and General Motors and Preliminary Views on its Investment Management Activities*, [GAO-10-325T](#) (Washington, D.C.: Dec. 16, 2009); GAO, *Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues*, [GAO-09-296](#) (Washington, D.C.: Jan. 30, 2009); and GAO, *Troubled Asset Relief Program: Additional Actions Needed to Better Ensure Accountability, Integrity, and Transparency*, [GAO-09-161](#) (Washington, D.C.: Dec. 2, 2008).

⁸³[GAO-10-151](#).

the auto companies has been successful and help mitigate potential or perceived conflicts of interest.

Recognizing the potential for interested parties to perceive conflicts, Treasury has taken several other steps to mitigate its risk. First, to guide its oversight of the investments going forward and limit its involvement in the day-to-day operations of the companies, Treasury developed four core principles: (1) acting as a reluctant shareholder, for example, by not owning equity stakes in companies any longer than necessary; (2) not interfering in the day-to-day management decisions; (3) ensuring a strong board of directors; and (4) exercising limited voting rights. According to Treasury officials, use of these core principles defines the operating boundaries of the federal role within its ownership context by limiting the reach and ability of the government to exert its powerful influence on the business and operational matters of these companies. Officials noted that the core principle of not interfering in day-to-day decisions has been particularly helpful in dealing with political pressures related to business operations. For example, officials said that Treasury's auto team received about 300 congressional letters in 2009 regarding day-to-day management issues involving GM and Chrysler. Several of these letters asked about company decisions and strategies, or called on Treasury to exert influence on the companies' business decisions. Some letters lobbied either in favor of or against a certain practice or activity. Other letters have been passed along on behalf of a particular constituent concern. Treasury officials said that, because of their core principle, most of the time they can simply reply to such letters by reiterating their policy of not getting involved with the companies' business decisions, and as a result, they have been able to avoid having to respond to these pressures.

Second, to implement these core principles, Treasury established a protective barrier between the Treasury officials (beneath the Secretary level) who make policy-related decisions with respect to investments in the automakers and the Treasury officials who are responsible for regulating pensions or overseeing the operations of PBGC. In theory, this barrier prevents Treasury in its role as owner from interacting with Treasury in its role as pension regulator or overseer of PBGC. Treasury officials stated that, in the management of its investment in GM and Chrysler, the Treasury auto team does not communicate with the IRS or PBGC.

Given the importance of balancing its competing interests as regulator and part-owner, and mitigating the appearance of conflicts between these interests, it is essential that Treasury ensure that it has an adequate

number of staff with the appropriate skills and expertise to carry out its various tasks. Because of earlier reductions in the number of Treasury staff working on the AIFP and Treasury's stated plans to disband the team focused exclusively on managing Treasury's stake in the auto industry, we recently recommended that Treasury ensure it has the expertise needed to adequately monitor and divest the government's investments in Chrysler and GM.⁸⁴ We believe that ensuring sufficient staffing continues to be essential, particularly in light of the circumstances discussed here. Subsequent to our making this recommendation, Treasury officials said they hired two additional analysts dedicated solely to monitoring Treasury's investments in Chrysler and GM, and planned to hire one more.

Despite These Efforts, Tensions May Remain

The steps taken to mitigate any risks likely to result should conflicts of interest arise—adoption of the core principles and establishment of a protective barrier—may help, but the tensions inherent in Treasury's multiple roles remain. This can be illustrated by the conflicting pressures that would likely be brought to bear in two critical and interrelated contexts: (1) how to respond to a decline in pension funding; and (2) how to decide when to sell the government's shares of stock.

Treasury officials told us they expect both GM and Chrysler to return to profitability. If this is the case, and the companies are able to make the required contributions to their pension plans as they become due, then Treasury's multiple roles are less likely to result in any perceived conflicts. However, if the funding of any of GM's or Chrysler's defined benefit plans declines below certain funding levels set out in statute,⁸⁵ the company may request a waiver—that is, request permission from IRS (within Treasury) to reduce its required contributions to its plans over an extended period. Despite Treasury's protective barrier and the autonomy of IRS to grant or refuse such a waiver request apart from any influence from other units within Treasury, some may still perceive a possible tension between Treasury's interest in the value of its shareholder investment and Treasury's interest, through its oversight of PBGC, in ensuring the viability of the pension plans.

In addition, Treasury has been clear that it wants to divest its shares as soon as practicable, but it must weigh a variety of factors when making the

⁸⁴[GAO-10-151](#).

⁸⁵26 U.S.C. §§ 412 and 430.

decision about when and how this should happen. Treasury officials said that on the basis of their analysis of the companies' future profitability, they believe that both GM and Chrysler will be able to attract sufficient investor interest for Treasury to sell its equity. However, circumstances that may appear advisable as to the best time to sell from a shareholder perspective—that is, which would maximize the return on the taxpayer's investment—could be at odds with the best interests of plan participants and beneficiaries. For example, Treasury could decide to sell its equity stake at a time when it would maximize its return on investment, but when the companies' pension plans were still at risk.

Finally, in the event that the companies do not return to profitability in a reasonable time frame, Treasury officials said that they will consider all commercial options for disposing of Treasury's equity, including forcing the companies into liquidation, which would likely mean that the companies' pension plans would be terminated and decisions would need to be made about the allocation of remaining company assets. In such circumstances, although there is a protective barrier preventing Treasury in its role as shareholder from interacting with Treasury in its role overseeing the PBGC, it may be difficult for the agency to make certain decisions without some perceiving a tension between these two separate roles.

Concluding Observations

Treasury's substantial investment and other assistance, as well as loans from the Canadian government and concessions from nearly every stakeholder, including the unions, have made it possible for Chrysler and GM to stabilize and survive years of declining market share and the deepest recession since the Great Depression. However, because of the ongoing challenges facing the auto industry—including the still recovering economy and weak demand for new vehicles—the ultimate impact that the assistance will have on the companies' profitability and long-term viability remains uncertain. This, too, is the case for the companies' pensions. The companies' ability to make the large contributions that would be required based on current projections is mostly dependent on their profitability. Treasury officials who oversee TARP expect both automakers to return to profitability. Ultimately, much of the automaker recovery is not only dependent on how well the automakers turn their companies around but also how well the overall economy and employment levels improve.

The suppliers' future is even more complex. GM and Chrysler are expected to continue to reduce the number of suppliers that they use going forward. Suppliers have diversified their client base to include many other domestic and international automakers to minimize the impact of such cuts, but this

has caused their viability to be more dependent on a global economic recovery, which has been slow. As a result, supplier bankruptcies and pension plan terminations may continue for the near future.

In light of these conditions, the risks to PBGC and participants in auto sector pension plans remain significant. PBGC estimated its exposure for unfunded guaranteed benefits across the sector to be about \$42 billion as of January 31, 2009, and the exposure for plan participants for unfunded nonguaranteed benefits to be about \$35 billion. The federal government and its institutions, the automakers, and the unions have all made a concerted effort to ensure that GM and Chrysler do not fail. But, should the automakers not return to profitability, interests may no longer be aligned. Treasury officials said that they will consider all commercial options for disposing of Treasury's equity, including liquidation; this would likely mean terminating the companies' pension plans, and allocating remaining company assets. In such circumstances, it would be difficult for Treasury to make any decisions that would trade off the value of its investment against the expense of the pension funds, potentially exposing the government either to loss of its TARP investment or to significant worsening of PBGC's financial condition. This is not a choice the government wants to face, but this risk and its attendant challenges remain real.

We recently recommended that Treasury should regularly communicate to Congress about TARP activities, including the financial health of GM and Chrysler.⁸⁶ This would include information on the companies' pensions as an integral part of the companies' financial health. Treasury already provides some information on its investments in the automakers through its monthly reports to Congress. In response to our previous recommendations, Treasury said that it intended to develop an approach for reporting on its investments in the auto industry that strikes an appropriate balance between transparency and the need to avoid compromising the competitive positions of the companies, and that it was implementing a communication strategy to provide key congressional stakeholders more current information about its TARP activities. These reports could provide a vehicle to report publicly available information on the financial status of the automakers' pensions. Such disclosure could help mitigate the potential or perceived tensions that could arise with the federal government's multiple roles with respect to the automakers and,

⁸⁶[GAO-10-151](#).

when the time comes, could shed light on how Treasury's decision to divest will impact the companies' pension plans.

Agency Comments and Our Evaluation

We obtained written comments on a draft of this report from the Department of the Treasury (see appendix VIII) and from PBGC (see appendix IX). Treasury generally agreed with our findings, but reiterated the importance of striking an appropriate balance in its public reporting between its goal of transparency and the need to avoid compromising the competitive positions of the companies or its ability to recover funds for taxpayers. Treasury noted that it already provides "a wealth of information" about AIFP on its Web site, and also provides periodic updates to oversight bodies, including GAO. It further noted that it will provide additional reports on its investments in Chrysler and GM as circumstances warrant, but that it will not communicate confidential business information due to the potential to negatively affect the value of the investments. Treasury concluded that, given its role as a shareholder, it would be inappropriate for it to report separately on the assets and liabilities in the automakers' pension plans to Congress and the public.

We understand the importance of protecting the automakers' proprietary interests. However, as we pointed out in our report, Treasury's role is multifaceted, serving not only as a shareholder and creditor for Chrysler and GM, but also as a regulator of pensions. As a creditor of these companies, Treasury should know and disclose the pension commitments, which represent liabilities for these companies. These liabilities must be taken into account when evaluating the financial status of these companies. GM and Chrysler are already required to disclose certain information about the status of their pensions in publicly available reports. By including this publicly available information on the status of the automakers' pension plans in its reports to Congress, Treasury could provide a more complete picture of the companies' financial health and help mitigate any perceived tensions between the various roles that the Treasury currently plays as shareholder, creditor, and pension regulator without compromising the companies' competitive positions.

Both Treasury and PBGC provided technical comments, which are incorporated into the report where appropriate. In addition, we received technical comments on certain segments of the draft report from GM, Chrysler, and Delphi, and have incorporated their comments where appropriate, as well.

We are sending copies of this report to other interested congressional committees and members, the Acting Director of PBGC, the Secretary of Labor, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact Barbara Bovbjerg at (202) 512-7215 (bovbjergb@gao.gov) or A. Nicole Clowers at (202) 512-2843 (clowersa@gao.gov). Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix X.

A handwritten signature in black ink, reading "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" and a long horizontal stroke extending to the right.

Gene L. Dodaro
Acting Comptroller General
of the United States

List of Committees

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Christopher J. Dodd
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Kent Conrad
Chairman
The Honorable Judd Gregg
Ranking Member
Committee on the Budget
United States Senate

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable David R. Obey
Chairman
The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable John M. Spratt, Jr.
Chairman
The Honorable Paul Ryan
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Barney Frank
Chairman
The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Sander M. Levin
Acting Chairman
The Honorable Dave Camp
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: The Delphi Story

Both as the former Delphi, prior to bankruptcy, and now as the “new Delphi,” postbankruptcy, the Delphi Corporation has been a leading global supplier of mobile electronics and transportation systems, including powertrain, safety, thermal, controls and security systems, electrical/electronic architecture, and in-car entertainment technologies. Delphi evolved as part of General Motors (GM) until it was spun off as a separate entity in 1999. At the time it filed for Chapter 11 bankruptcy in 2005, the company employed more than 185,000 workers in 38 countries, making it one of the largest suppliers in the world.

The former Delphi Corporation sponsored six defined benefit plans for its U.S.-based workers:

- the Delphi Hourly-Rate Employees Pension Plan;
- the Delphi Retirement Program For Salaried Employees;
- the Packard-Hughes Interconnect Bargaining Retirement Plan;
- the Packard-Hughes Interconnect Non-Bargaining Retirement Plan;
- the ASEC Manufacturing Retirement Program; and
- the Delphi Mechatronic Systems Retirement Program.

Following Delphi’s spin off from GM in 1999, GM agreed with its unions, including the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), to offer pension protections for certain employees in the event that Delphi’s pension plans would be frozen or terminated. Specifically, under the agreement, GM agreed with three unions to provide certain former GM employees retired from Delphi certain pension benefits that would otherwise not be paid by Delphi or by the Pension Benefit Guaranty Corporation (PBGC) upon plan termination. Salaried and certain other union-represented employees did not receive similar contractual commitments from GM with respect to their pensions or other postemployment benefits, and they are suffering the full impact of their Delphi plans having been frozen and terminated.

In addition, GM agreed to provide transfer rights for certain Delphi hourly UAW-represented employees in the United States. Specifically, it provided these employees with “flowback” opportunities to transfer to GM as appropriate job openings became available at GM. GM employees in the U.S. had similar opportunities to transfer to Delphi. The original flowback

agreement provided that, when an employee transferred, the employee would be eligible for pension benefits which reflected the transferring employee's combined years of credited service. The parties did not transfer pension assets or liabilities in order to accomplish this. Rather, pension responsibility between Delphi and GM was allocated on a pro-rata basis based upon the employee's credited service at each company.

After Delphi and its U.S. subsidiaries filed for bankruptcy in 2005, there were extensive efforts involving negotiations between Delphi, GM, and other stakeholders to keep the pension plans ongoing. On September 30, 2008, the company froze its salaried plan, the ASEC Manufacturing Retirement Program, the Delphi Mechatronic Systems Retirement Program and the Packard Hughes Interconnect Non-Bargaining Retirement Plan. The company also reached agreement with its labor unions allowing it to freeze the accrual of traditional benefits under its hourly plan, effective as of November 30, 2008.

Delphi received the consent of its labor unions and approval from the court to transfer certain assets and liabilities of Delphi's hourly plan to GM's hourly plan. The first transfer involved liabilities of approximately \$2.6 billion and assets of approximately \$486 million (about 90 percent of the estimated \$540 million of assets initially scheduled to be transferred). It was anticipated that the remaining assets would be transferred by March 29, 2009, upon finalizing the related valuations. In exchange for the first transfer, Delphi's reorganization plan released GM from all claims that could be brought by its creditors with respect to, among other things, the spin off of Delphi, any collective bargaining agreements to which the former Delphi was a party, and any obligations to former Delphi employees.

Although the first transfer had the effect that no contributions were due under the hourly plan for the plan year ended September 30, 2008, Delphi still had a funding deficiency of \$56 million for the salaried plan and an approximate \$13 million funding deficiency for its other pension plans for the plan year ending September 30, 2008. Delphi applied to the Internal Revenue Service (IRS) for a waiver of the obligation to make the minimum funding contribution to the salaried plan by June 15, 2009, and requested permission, instead, to pay the amount due in installments over the following 5 years. However, Delphi abandoned the waiver request when it became clear that it could not afford to maintain the salaried plan and that GM was not going to assume it.

In the second phase of the transfer, Delphi expected to transfer substantially all of the remaining assets and liabilities of the hourly plan to GM. In exchange for the second transfer, GM was to receive a \$2 billion administrative claim when Delphi emerged from bankruptcy. In its 2008 annual report, Delphi was cognizant that the second pension transfer to GM was contingent upon its emergence from Chapter 11 under a modified plan of reorganization. If these conditions were not satisfied and the second transfer did not take place, it would likely be unable to fund its U.S. pension obligations. Specifically, Delphi stated that

“ . . . due to the impact of the global economic recession, including reduced global automotive production, capital markets volatility that has adversely affected our pension asset return expectations, a declining interest rate environment, or other reasons, our funding requirements have substantially increased since September 30, 2008. Should we be unable to obtain funding from some other source to resolve these pension funding obligations, either Delphi or the Pension Benefit Guaranty Corporation (the “PBGC”) may initiate plan terminations.”

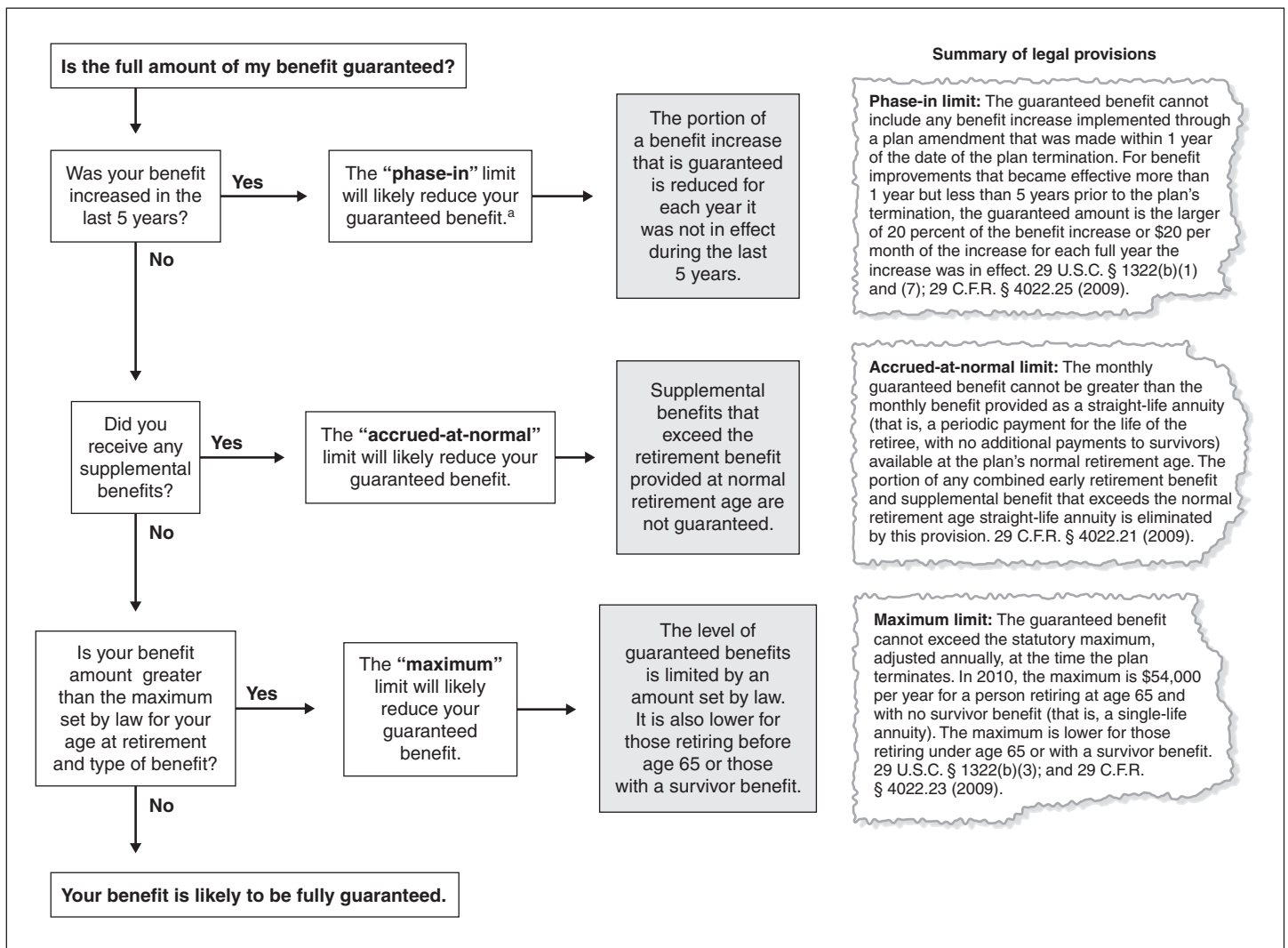
Delphi’s financial difficulties continued, and when the second transfer of pension assets and liabilities to GM was not implemented on July 31, 2009, PBGC terminated all six of Delphi’s U.S. qualified defined benefit plans. PBGC assumed responsibility for the plans on August 10, 2009. According to PBGC, this step was necessary because Delphi had stated that it could not afford to maintain its pension plans and GM, which itself had reorganized in bankruptcy earlier in the year, had stated that it was unable to afford the additional financial burden of the Delphi pensions. PBGC stated that the Delphi pension plans were \$7 billion underfunded when they terminated the plans. PBGC estimates that it will make up about \$6 billion of that shortfall using PBGC funds. Following PBGC’s takeover of the plans, on October 6, 2009, in accordance with Delphi’s plan of reorganization, the former company sold its U.S. and foreign operations to a new entity, Delphi Automotive LLP, with the exception of four UAW sites in the United States and its steering business, which were sold to GM.

PBGC has acknowledged that the calculation of benefits for former Delphi plan participants will be a difficult, lengthy process due to the plans’ complex benefit structures and the availability of documentation for all the mergers and acquisitions that have taken place throughout the life of the plans. On its Web site, PBGC stated that it could take 6 to 9 months from Delphi’s date of trusteeship before it adjusted benefits to estimated PBGC benefit amounts. Moreover, PBGC noted that it could take several years to fully review the plan and finally determine all benefit amounts.

Appendix II: Legal Limits on PBGC Guaranteed Benefits

To help protect the retirement income of U.S. workers with private sector defined benefit plans, PBGC guarantees participant benefits up to certain limits specified under the Employee Retirement Income Security Act of 1974 (ERISA) and related regulations. These limits include the phase-in limit, the accrued-at-normal limit, and the maximum limit, as illustrated below in figure 8.

Figure 8: Determining If a Participant’s Guaranteed Benefit Is Subject to Legal Limits



Source: GAO analysis of ERISA, PBGC’s implementing regulations and related documents.

^aBenefit increases subject to phase-in limits also include “unpredictable contingent event benefits” (such as shutdown benefits). In addition, in cases involving bankruptcy, the date the bankruptcy petition was filed is treated as the termination date of the plan.

Appendix III: Recent Attrition Programs at GM and Chrysler

Table 6: Recent Attrition Programs at GM

Plan/program	Description	Estimated impact on pension obligations ^a
Hourly Plan		
2006 Special Attrition Program	<p>Hourly UAW employees and select Delphi UAW employees were offered the following:</p> <ul style="list-style-type: none"> • Lump-sum payment of \$35,000 for normal or early voluntary retirement (paid from company assets). • “Mutually satisfactory retirement” for age 50 and 10 years of service and preretirement leave for select employees, depending on plant location. • Buyout of \$140,000 for employees with 10 or more years of service and \$70,000 for employees with less than 10 years of service (paid from company assets). 	\$1.2 billion decrease in obligations (34,400 acceptances)
2008 Special Attrition Program	<p>About 74,000 UAW-represented employees and 2,300 other union-represented employees were offered the following:</p> <ul style="list-style-type: none"> • Lump sum payment for retirement-eligible employees (\$45,000 for production and \$62,500 for skilled trade) funded from plan assets. Lump sum payable as an annuity, if elected. • “Mutually satisfactory retirement” for age 50 and 10 or more years of service. • Preretirement leave for employees with 26-29 years of service. • Buyout of \$140,000 for employees with 10 or more years of service, and \$70,000 for employees with less than 10 years of service (paid from company assets). 	\$0.8 billion increase in obligations (18,700 acceptances)
Special Attrition Program 3.0 (February 2009)	<p>About 57,000 hourly UAW employees were offered the following:</p> <ul style="list-style-type: none"> • \$45,000 incentive value offered to production and skilled employees for normal/voluntary retirement and buyout. Incentive included \$25,000 vehicle voucher plus \$20,000 cash. • “Mutually satisfactory retirement” for age 55 with 10 or more years of service, and age 50 with 10 or more years of service for select closed or closing plants. <p>All cash payments were funded from company assets.</p>	\$1.2 billion increase in obligations (February and June programs combined) (7,000 acceptances in February program)

**Appendix III: Recent Attrition Programs at
GM and Chrysler**

Plan/program	Description	Estimated impact on pension obligations^a
Special Attrition Program 3.1 (June 2009)	<p>About 50,000 hourly UAW employees were offered the following:</p> <ul style="list-style-type: none"> • Normal/voluntary retirement incentive value of \$45,000 (production) and \$70,000 (skilled). Incentive included \$25,000 vehicle voucher. • Buyout incentive value of \$70,000 for those with less than 10 years of service; \$105,000 for those with 10 to 20 years of service; and \$140,000 for those with 20 or more years of service. Incentive included \$25,000 vehicle voucher. • Preretirement leave offered to employees with 28 and 29 years seniority. • "Mutually satisfactory retirement" for age 50 and 10 or more years of service. <p>All cash payments were funded from company assets.</p>	(6,000 acceptances in June program)
Salaried Plan		
2008 Salaried Window Retirement Program	<p>Voluntary retirement offers were extended to certain U.S. salaried employees, as follows:</p> <ul style="list-style-type: none"> • 6-month cash lump sum payment from the pension plan for all retirement-eligible employees (age 62 and older) who elect to retire or for employees under age 55 who will receive reduced benefits. Lump sum payable as an annuity, if elected. • Enhanced window retirement factors for employees ages 55 to 61 who are eligible but do not elect the lump sum payment. 	\$0.3 billion increase in obligations (3,700 acceptances)
2009 Salaried Window Retirement and Involuntary Severance Program (June 2009)	<p>Offers were extended to about 5,700 salaried employees for retirements targeted for October 1, 2009, as follows:</p> <ul style="list-style-type: none"> • Unreduced pension benefits for participants age 58 and older as of October 1, 2009; participants ages 53-57 would receive enhanced window retirement benefits. • Severance program provides monthly base salary payments up to 6 months (if classified) or 12 months (if executive). Severance payments to be paid from company assets. 	\$0.5 billion increase in obligations (3,000 acceptances)

Source: GM documents.

^a Estimated impact is based on measurements of pension obligations in accordance with Financial Accounting Standards. The measurements reflect remeasurements performed around the time of the respective attrition programs and changes in a number of variables that are incorporated into the remeasurement calculations, such as changes in present-value discount rates. All data included in this column are approximations.

**Appendix III: Recent Attrition Programs at
GM and Chrysler**

Table 7: Recent Attrition Programs at Chrysler

Plan/program	Description	Estimated impact^a
Incentive Program for Retirement (2006-2009)	<ul style="list-style-type: none"> Normal retirement eligibility (that is, 30 or more years of service, or combination of age and years of service = 85), or age 60 with 10 or more years of service, or age 65 with one or more year of service. \$50,000 lump sum payment plus \$25,000 vehicle purchase voucher.^b 	\$1,067 million increase in obligations (10,956 acceptances) ^c
Special Early Retirement (2006-2009)	<ul style="list-style-type: none"> Age 55-62 with 10 or more years of service and not otherwise eligible for IPR.^d Normal retirement benefit with no age reduction factor applied (in certain labor markets, nonviable age reduced to 50). No lump sum. 	\$401 million increase in obligations (3,141 acceptances)
Enhanced Voluntary Termination of Employment (2007-2009)	<ul style="list-style-type: none"> \$75,000 lump sum payment plus \$25,000 vehicle purchase voucher (per "Plant Closure Agreements" - \$100,000 plus \$25,000 vehicle purchase voucher).^b 	\$57 million decrease in obligations (7,636 acceptances)
Other miscellaneous programs (2006-2008)		\$184 million increase in obligations (438 acceptances)

Source: Chrysler documents.

^aEstimated impact is based on measurements of pension obligations in accordance with Financial Accounting Standards. The measurements reflect remeasurements performed around the time of the respective attrition programs and changes in a number of variables that are incorporated into the remeasurement calculations, such as changes in present-value discount rates. Data for 2006-2008 are based on actual numbers; data for 2009 are based on projected numbers, across all ten U.S. qualified defined benefit plans, as appropriate.

^bLump sum payments during 2008 paid with pension plan assets; payments before 2008 and after 2008 paid with company assets.

^cAlso includes data for the Separation Incentive Program.

^dIn 2008, the retirement age was 53 instead of 55 for certain salaried nonunion employees.

Appendix IV: Product Lines and Facilities Being Eliminated

Table 8: GM Product Lines and Facilities Being Eliminated

Product line	Current status	Location of plant shutdowns
Pontiac Vibe	Production ceased at the end of August 2009.	The New United Motor Manufacturing Incorporated facility (known as "Nummi") jointly operated by GM and Toyota in Fremont, CA, to close.
Pontiac	Production of the last Pontiac model will cease by the end of December 2010.	None identified to date.
Hummer	In February 2010, GM announced that the sale of Hummer to Sichuan Tengzhong Heavy Industrial Machinery Co., Ltd. could not be completed and there would be an orderly wind-down of Hummer operations. Currently approximately 850 units of the H3 model are being produced for a fleet customer. H3 production will cease at the end of June 2010. All other Hummer production ceased at the end of September 2009.	None identified to date.
Chevy Kodiak and GMC Topkick	Production ceased at the end of July 2009.	None identified to date.
Saturn	Following Penske Automotive Group's decision to terminate discussions to acquire Saturn in September 2009, GM announced that it would be winding down the Saturn brand and dealership network. Production ceased at the end of December 2009.	None identified to date.
Saab	Purchased by Spyker Cars, NV, on February 23, 2010.	The previously announced wind down of Saab operations has ended. Saab and Spyker will operate under the Spyker (AMS:SPYKR) umbrella, and Spyker will assume responsibility for Saab operations.

**Appendix IV: Product Lines and Facilities
Being Eliminated**

Product line	Current status	Location of plant shutdowns
Manufacturing plants	Total number of assembly, powertrain, and stamping facilities in the United States to be reduced from 47 in 2008 to 34 by the end of 2010 and 33 by 2012.	<ul style="list-style-type: none"> • Powertrain castings plant in Massena, NY, closed in May 2009. • Stamping plant in Grand Rapids, MI, closed in May 2009. • Assembly plant in Wilmington, DE, closed in July 2009. • Assembly plant in Pontiac, MI, closed in September 2009. • Stamping plant in Mansfield, OH, closed in January 2010. • Powertrain engine plant in Livonia, MI, to close by July 2010. • Powertrain components plant in Fredericksburg, VA, to close by August 2010. • Powertrain plants: Flint North components plant and Willow Run Site, MI; and Parma, OH, components plant to close by August 2010. • Stamping plant in Indianapolis, IN, to close by December 2011. • Stamping plant and assembly plant in Shreveport, LA, to close by June 2012.
Parts	Three parts distribution centers closed.	<ul style="list-style-type: none"> • Parts distribution centers in Boston, MA; Columbus, OH; and Jacksonville, FL, closed on December 31, 2009.

Source: GM documents.

**Appendix IV: Product Lines and Facilities
Being Eliminated**

Table 9: Chrysler Product Lines and Facilities Being Eliminated

Product line	Current status	Location of plant shutdowns
Dodge Magnum and the Chrysler Pacifica, Crossfire, and PT Cruiser convertible.	Announced in November 2007 that these four models were to be eliminated from the product portfolio through 2008. Subsequently announced that the PT Cruiser would remain in production.	Production at several North American assembly and powertrain plants to be cut, which combined with other actions, was expected to reduce the number of hourly jobs by 8,500 to 10,000 people through 2008. See May 2009 updated list of plant closings provided below in last row of this table.
Dodge Ram pick-up truck	Announced in June 2009 that production would end effective July 10, 2009.	<ul style="list-style-type: none"> • St. Louis Assembly Plant North in Fenton, MO. See also below.
Service and parts operations	List of plants scheduled for closing, as of May 2009.	<ul style="list-style-type: none"> • St. Louis Assembly Plant South in Fenton, MO, closed October 2008. • Assembly plant in Newark, DE, closed in December 2008. • St. Louis Assembly Plant North in Fenton, MO, was to close by the end of September 2009. Production to be moved to Warren Truck Assembly plant. • Conner Avenue Assembly Plant in Detroit, MI, was to close in December 2009. • Stamping plant in Twinsburg, OH, was to close in March 2010. Existing volume to be transferred to Warren Stamping and Sterling Stamping plants. • Assembly plant in Sterling Heights, MI; engine plant in Kenosha, WI; and axle plant in Detroit, MI, to close at the end of December 2010.

Source: Chrysler documents.

Appendix V: History of Major Acquisitions and Divestitures

	GM	Chrysler
1900s	<p>Founded September 16, 1908.</p> <p>1908: Acquired Oldsmobile and Reliance Motor Truck Company.</p> <p>1909: Acquired Cadillac; Oakland Motor Car Company; Rapid Motor Vehicle Company (later renamed GMC Truck); and Champion (later renamed AC Spark Plug Company).</p>	
1910s	<p>1918: Acquired McLaughlin Motor Company (later renamed General Motors of Canada) and United Motor Corporation.</p> <p>1919: Acquired Fisher Body; Dayton Wright Company; Guardian Frigerator (later renamed Frigidaire); and Saginaw Malleable Iron Company (renamed Saginaw Products Company).</p>	
1920s	<p>1925: Acquired Vauxhall Motors, Ltd., based in Luton, England.</p> <p>1929: Acquired Adam Opel Corporation, located in Rüsselsheim, Germany; and Allison Engineering Company.</p>	<p>Founded June 6, 1925.</p> <p>1928: Acquired Dodge.</p>
1930s	<p>1930: Acquired Electro-Motive Engineering Corporation.</p> <p>1931: Acquired Holden's Motor Body Builders Limited; merged with GM's Australia Proprietary, Limited, to form Holden's Limited, located in Melbourne, Australia.</p> <p>1933: Acquired a controlling interest in North American Aviation; merged with GM's General Aviation division.</p>	
1940s		
1950s	<p>1953: Acquired Euclid, Inc.</p>	<p>1957: Acquired Ensamblaje Venezolana, soon renamed Chrysler de Venezuela S. A.</p> <p>1959: Acquired Chrysler South Africa Ltd.</p>
1960s	<p>1968: Sold most of Euclid; renamed remaining facilities the Terex Division.</p>	<p>1963: Acquired Chrysler Hellas S. A., Greece.</p> <p>1965: Acquired the outboard engine business of West Bend Company of Hartford, Wisconsin and the Lone Star Boat Company of Plano, Texas, forming the Chrysler Boat Corporation.</p> <p>1967: Acquired Redisco, Inc., from American Motors Corporation and integrated it with Chrysler Credit to form Chrysler Financial Corporation. Also acquired 77 percent of Barreiros Diesel S. A. (Spain), and increased interest in Chrysler do Brasil (Brazil) to 92 percent.</p>
1970s	<p>1973: Merged Allison Engineering with Detroit Diesel.</p>	<p>1970: Control of Rootes Group equity reached 73 percent; the company renamed Chrysler United Kingdom Ltd.</p> <p>1976: Sold the Airtemp Division to Fedders Corporation.</p> <p>1978: Sold the Chrysler Europe Division.</p>

**Appendix V: History of Major Acquisitions
and Divestitures**

	GM	Chrysler
1980s	<p>1981: Sold Terex Division.</p> <p>1984: Acquired Electronic Data Systems Corporation.</p> <p>1985: Acquired Hughes Aircraft Company; merged with Delco Electronics to form a new subsidiary called Hughes Electronics.</p> <p>1988: Spin off of Detroit Diesel.</p> <p>1989: Purchased 50 percent equity in Saab Automobile AB of Sweden; later purchased the remaining 50 percent to become sole owner in 2000.</p>	<p>1980: Sold the Marine Division.</p> <p>1981: Sold the Defense Division to General Dynamics.</p> <p>1984: Reorganized into a holding company that included Chrysler Motors, Chrysler Financial, Gulfstream Aerospace and Chrysler Technologies.</p> <p>1987: Acquired American Motors Corporation (and Jeep) for \$800 million.</p>
1990s	<p>1993: Sold Allison Gas Turbine.</p> <p>1996: Sold Electronic Data Systems Corporation.</p> <p>1997: Sold Hughes Aircraft to Raytheon.</p> <p>1999: Spin off of Delphi; acquired exclusive rights to the Hummer brand name from AM General Corporation.</p>	<p>1998: Merged with Daimler-Benz AG; operated as "Chrysler Group," a business unit of DaimlerChrysler AG.</p>
2000s	<p>2002: Acquired the bulk of Korean automaker Daewoo Motor's automotive assets and created a new company called GM Daewoo Auto & Technology.</p> <p>2003: Sold Hughes Electronics.</p> <p>2005: Sold Electro-Motive Diesel.</p> <p>2006: Divested majority ownership in its financing unit, General Motors Acceptance Corporation (now known as GMAC).</p> <p>2007: Sold Allison Transmission.</p> <p>2009: Acquired five U.S.-based components plants from Delphi.</p>	<p>2007: Just over 80 percent of Chrysler and its related financial services business sold to Cerberus Capital Management for \$7.4 billion.</p> <p>2008: Spin off of Chrysler Financial Corporation.</p>

Source: GM's and Chrysler's Web sites.

Appendix VI: Allocation of Assets to Participant Benefits

When a pension plan is terminated and trusted by PBGC, ERISA specifies that the remaining assets of the plan and any funds recovered for the plan during the bankruptcy proceedings be allocated to participant benefits according to six priority categories (see table 10).¹

Table 10: Priority Categories for Allocating Participant Benefits

Priority category 1	Accrued benefits derived from voluntary employee contributions.
Priority category 2	Accrued benefits derived from mandatory employee contributions.
Priority category 3	Annuity benefits that have been in pay status for at least 3 years before the plan's termination date, or could have been in pay status for at least 3 years before the plan's termination date had the participant chosen to retire at his or her earliest possible retirement date; however, benefits subject to the phase-in limitation (that is, benefit increases made within the last 5 years) are excluded. These benefits can be either guaranteed or nonguaranteed.
Priority category 4	Other guaranteed benefits, and certain nonguaranteed benefits. ^a
Priority category 5	Other vested nonguaranteed benefits that a participant is entitled to under the plan; however, benefits that result solely due to the termination of the plan—which are deemed “forfeitable”—are excluded.
Priority category 6	All other benefits under the plan. This category includes nonvested benefits and “grow-in” benefits, which are benefits that are provided in some situations where the company continues to operate after the plan is terminated.

Source: GAO analysis of PBGC documents.

Note: The distribution of plan assets is based on type of benefit, not retirement status, and many participants have benefits in more than one category.

^aSpecifically, the nonguaranteed benefits included in priority category 4 are those that are nonguaranteed because they are subject to the aggregate benefits limitation for participants in more than one plan that has been terminated with insufficient funds, or because they are subject to special provisions applicable to substantial owners (that is, those owning more than 10 percent of the company).

Funds recovered from bankruptcy proceedings are also allocated using these priority categories, but unlike plan assets, recoveries are required to be shared between participants' unfunded nonguaranteed benefits and

¹29 U.S.C. §§ 1322(c) and 1344.

PBGC's costs for unfunded guaranteed benefits.² As a result, recoveries are often more advantageous for participants than residual plan assets. PBGC allocates the participants' portion of the recoveries beginning with the highest priority category in which there are unfunded nonguaranteed benefits, and then to each lower priority category, in succession.³

²In cases when a plan's unfunded nonguaranteed benefits exceed \$20 million, the total amount to be shared depends on the actual amount recovered. In all other cases, the amount to be shared is determined by an average of PBGC's recoveries over a 5-year period. ERISA section 4022(c).

³If the assets are not sufficient to pay for all benefits in a category, the assets are distributed among the participants according to the ratio that the value of each participant's benefit in that priority category bears to the total value of all benefits in that category. Within each priority category (except priority category 5), assets are allocated first to the participant's "basic-type" benefits (which include benefits that are guaranteed by PBGC, or that would be guaranteed but for the maximum and phase-in limits), and then to the participant's "nonbasic-type" benefits (which include all other benefits). If the plan assets available for allocation to priority category 5, which includes benefits subject to the phase-in limit, are insufficient to pay for all benefits in that category, the assets are allocated by date of plan amendment, oldest to newest, until all plan assets available for allocation have been exhausted.

Appendix VII: PBGC Example Benefit Calculations

PBGC prepared example benefit calculations to illustrate how termination of the automaker pension plans might impact participant benefits, depending on the participant's situation (see table 11). The calculations assume that plan assets and recoveries are not sufficient to fund nonguaranteed benefits beyond a portion of those benefits in priority category 3 (that is, of those retired or eligible to retire for at least 3 years), and they focus on those who would lose the most under such situations. Although an early retiree eligible for priority 3 status would lose the least, all early retirees under age 62 as of the date of plan termination would lose a sizeable portion of their benefits until age 62 because their supplements are not guaranteed. The person who retired early under a special attrition program or plant shutdown benefit would lose even more, as the enhanced benefits under the special program would also not be guaranteed, reducing the person's lifetime benefit by more than half. Finally, the person not yet eligible to retire would lose the most. Compared to the benefits promised under the plan, he would not be able to retire for 5 more years and his payment would be less than a quarter of the amount promised. Over time, in general, more employees will be eligible to retire and qualify for priority 3 status, and the amount of retirees' monthly guaranteed benefits will increase.

Table 11: Examples of Participants' Benefit Reductions If an Automaker Hourly Plan Were Terminated

	Plan benefit	PBGC benefit if plan terminates in 2009 ^a	Changes to PBGC benefit if plan terminates 5 years later (in 2014)
Example 1: Employee retires early in 2009			Employee retires early in 2014
Age 53 with 33 years of service (eligible for priority category 3)			Age 58 with 38 years of service (eligible for priority category 3)
Benefit until age 62	\$3,200	\$1,750 ^b	Incremental increase in PBGC benefit
Benefit after age 62	1,750	1,750	Incremental increase in PBGC benefit
Example 2: Employee retires early in 2009			Employee retires early in 2014
Age 50 with 30 years of service (not eligible for priority category 3)			Age 55 with 35 years of service (eligible for priority category 3)
Benefit until age 62	3,200	1,500	Incremental increase in PBGC benefit
Benefit after age 62	1,500	1,500	Incremental increase in PBGC benefit
Example 3: Employee retires early under special attrition program (or plant shutdown) in 2009 (0 percent phase-in)			Employee retires early under special attrition program (or plant shutdown) in 2009 (100 percent phase-in)
Age 55 with 25 years of service (not eligible for priority category 3)			Age 55 with 25 years of service (eligible for priority category 3)
Benefit until age 62	2,600	600	No loss of benefit enhancements due to phase in, substantial increase in PBGC benefit

Appendix VII: PBGC Example Benefit Calculations

	Plan benefit	PBGC benefit if plan terminates in 2009^a	Changes to PBGC benefit if plan terminates 5 years later (in 2014)
Benefit after age 62	1,400	600	No loss of benefit enhancements due to phase in, substantial increase in PBGC benefit
Example 4: Employee not yet retired when plan terminates in 2009 Age 49 with 29 years of service (not eligible for priority category 3)			Employee retires early in 2014 Age 54 with 34 years of service (eligible for priority category 3)
Benefit until age 62	3,200 (beginning at age 50 with 30 years of service)	700 (beginning at age 55)	Eligible to retire, benefits not deferred, substantial increase in PBGC benefit
Benefit after age 62	1,600	700	Substantial increase in PBGC benefit

Source: GAO analysis of PBGC documents.

^aPBGC example calculations, assuming plan assets and recoveries are not sufficient to pay nonguaranteed benefits beyond a portion of priority category 3.

^bPBGC benefit if priority category 3 is 70 percent funded. If more than 70 percent funded, part of the temporary supplement is payable, and could increase up to \$2,750 if 100 percent funded.

Appendix VIII: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 26, 2010

Thomas J. McCool
Director, Center for Economics
Applied Research and Methods
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. McCool:

The Treasury Department (Treasury) appreciates the opportunity to review the GAO's latest draft report on Treasury's Troubled Asset Relief Program (TARP), titled *Troubled Asset Relief Program: Automakers' Pension Funding and Multiple Federal Roles Pose Challenges for the Future* (Draft Report). Treasury welcomes the recognition by the GAO that Treasury through TARP investments has helped make "it possible for Chrysler and GM to stabilize and survive years of declining market share and the deepest recession since the Great Depression." There is important work ahead and the GAO's Draft Report is constructive as Treasury continues to implement its Automotive Industry Financing Program (AIFP).

Although the Draft Report contains no new recommendations, it suggests that Treasury should not only report publicly on the auto investments but also on the "status of the automakers' pensions." As we have stated previously, in addition to providing a wealth of information on the AIFP on FinancialStability.gov and periodic updates to the oversight bodies, Treasury will provide additional reports regarding the status of its investments in the automotive companies as circumstances warrant. Treasury recognizes the importance, as noted by the GAO in its various reports, of striking an appropriate balance in its public reporting between our goal of transparency and the need to avoid compromising either the competitive positions of these automotive companies or Treasury's ability to recover funds for taxpayers. It would be inappropriate for Treasury in our capacity as a shareholder to separately report on the pension assets and liabilities under the GM and Chrysler pension plans, and we suggest directing these questions to GM and Chrysler.

Once again, Treasury appreciates the opportunity to review the Draft Report. Treasury also appreciates the GAO's close oversight of TARP as Treasury develops and implements its policies to stabilize the financial system. We look forward to continuing this constructive dialogue.

Sincerely,

A handwritten signature in black ink, appearing to read "Herbert M. Allison, Jr.", written over a white background.

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

Appendix IX: Comments from PBGC



Office of the Director

March 26, 2010

Gene L. Dodaro
Acting Comptroller General of the United States
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Dodaro:

Thank you for the opportunity to comment on the draft version of your report entitled, "Troubled Asset Relief Program: Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future."

We appreciate GAO's calling attention to the automakers' defined benefit pension plans, their funded status, and the risk of loss faced by plan participants and PBGC's single-employer insurance program if these plans are terminated in the future. As the report correctly points out, improvements in the financial condition of the companies and their pension plans will strengthen retirement security for plan participants and reduce PBGC's exposure to loss. The report also serves to highlight the complexity of the environment in which PBGC operates as it strives to fulfill its mission. PBGC is actively monitoring the financial health of plan sponsors in the auto industry, as well as related corporate transactions that may affect defined benefit pension plans.

Under a separate cover, we have provided suggested technical corrections and other changes to further clarify aspects of the report.

GAO has consistently reported on matters affecting the retirement security of the American people, and we especially appreciate GAO's work in highlighting the challenges PBGC faces in "Protecting America's Pensions."

Sincerely,

Vincent K. Snowbarger
Acting Director

Appendix X: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to the contacts named above, Kimberley M. Granger and Raymond Sendejas, Assistant Directors; Charles J. Ford, Jonathan McMurray, Margie K. Shields, Sarah A. Farkas, Heather Halliwell, and Joseph A. Applebaum made significant contributions to this report. James Bennett, Jessica A. Botsford, Orice Williams Brown, Susannah L. Compton, Shannon K. Groff, Cheryl M. Harris, Susan J. Irving, Charles A. Jeszeck, Gene G. Kuehneman, Christopher D. Morehouse, Michael P. Morris, Robert Owens, Roger J. Thomas, and Craig H. Winslow also made important contributions.

Related GAO Products

Troubled Asset Relief Program: The U.S. Government Role as Shareholder in AIG, Citigroup, Chrysler, and General Motors and Preliminary Views on its Investment Management Activities. [GAO-10-325T](#). Washington, D.C.: December 16, 2009.

Troubled Asset Relief Program: Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM. [GAO-10-151](#). Washington, D.C.: November 2, 2009.

Pension Benefit Guaranty Corporation: Workers and Retirees Experience Delays and Uncertainty when Underfunded Plans Are Terminated. [GAO-10-181T](#). Washington, D.C.: October 29, 2009.

Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues. [GAO-09-1048T](#). Washington, D.C.: September 24, 2009.

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