DELPHI CORPORATION

Key Events Leading to Termination of the Delphi Defined Benefit Plans

What GAO Found

The termination of the six defined benefit plans sponsored by Delphi, and the provision of benefit protections to some Delphi employees but not others, culminated from a complex series of events involving Delphi, GM, various unions, Treasury, and PBGC.

When Delphi spun off from GM in 1999, three unions secured an agreement that GM would provide a retirement benefit supplement (referred to as “top-ups”) for their members should their pension plans be frozen or terminated and they were to suffer a resulting loss in pension benefits. These three unions were:

- the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW);
- the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL-CIO (IUE); and
- the United Steelworkers of America (USWA).

After Delphi filed for bankruptcy in 2005, GM agreed to extend the top-up agreements with these three unions in 2007, as well as to assume some of the liabilities in Delphi’s hourly-employee pension plan. In 2008, GM agreed to take responsibility for approximately $3.4 billion of Delphi’s hourly plan net liabilities, to be transferred to GM in two phases. The first transfer—involving $2.1 billion—took place in September 2008. However, in fall 2008, losses throughout the auto industry pushed Delphi near liquidation and caused GM to seek assistance from Treasury. In April and May 2009, Treasury worked with GM to develop a restructuring plan, and helped GM to determine the “best resolution” of the Delphi bankruptcy from GM’s perspective.

In June 2009, Delphi stated publicly that it was unable to fund its plans. In July 2009, the “new GM,” which began operations following GM’s bankruptcy, maintained the top-up agreements with UAW, which represented GM’s largest employee group. However, GM concluded that the Delphi hourly plan was a “$3 billion liability that [GM] could not afford,” and Treasury agreed. The second transfer of Delphi’s hourly plan net liabilities never took place. On July 22, 2009, PBGC announced the termination of all six of Delphi’s defined benefit plans. Because the plans were terminated with insufficient assets, and because PBGC must adhere to statutory limits, many Delphi employees will receive a reduced benefit from PBGC.

GM was not required to provide the top-ups to IUE and USWA under its own bankruptcy settlement, but Delphi remained a significant—if not the largest—supplier for GM, and GM was motivated to help resolve Delphi’s bankruptcy. In September 2009, new GM agreed to provide top-ups for IUE and USWA members as well, pursuant to the 1999 agreements.

None of these agreements provided for top-ups to members of other unions or to any other noncovered employees, including all members of Delphi’s salaried plan. As a result, Delphi employees covered by the GM top-up agreements are protected from losses in pension benefits due to PBGC’s benefit limits, while other employees are not.

View GAO-12-234T. For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.