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PRIVATE PENSIONS

Sponsors of 10 Underfunded Plans Paid Executives Approximately $350 Million in Compensation Shortly Before Termination

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Highlights

Highlights of GAO-10-77, a report to the Chairman, Committee on Education and Labor, House of Representatives

Why GAO Did This Study

When sponsors terminate underfunded plans during bankruptcy, it can deplete resources of the Pension Benefit Guaranty Corporation (PBGC), which protects the pensions of almost 44 million American workers and retirees who participate in over 29,000 defined benefit pension plans. In 2009, PBGC reported an estimated deficit of over $30 billion. GAO was asked to determine what pay and other compensation executives received in the years preceding their company's termination of an underfunded defined benefit pension plan.

To identify case study examples GAO analyzed a listing of the 1,246 underfunded plans that were terminated from 1999 to 2008 and selected public companies with large unfunded liabilities, large unfunded liabilities per participant, and a large number of plan participants. GAO reviewed documents provided by companies and executives, and interviewed PBGC and company officials. GAO also reviewed Securities and Exchange Commission (SEC) filings and PBGC documents disclosing plan underfunding at the time of termination and missed contributions. Executive compensation figures may be understated because some company executives could not be located, did not respond to document requests, declined interviews, and did not give GAO access to their tax records.

View GAO-10-77 or key components.
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What GAO Found

GAO found that 40 executives for 10 companies received approximately $350 million in pay and other compensation in the years leading up to the termination of their companies' underfunded pension plans. GAO identified salaries, bonuses, and benefits provided to small groups of high-ranking executives at these companies during the 5 years leading up to the termination of their pension plans. For example, beyond the tens of millions in base salaries received, GAO found that executives also received millions of dollars in stock awards, income tax reimbursements, retention bonuses, severance packages, and supplemental executive-only retirement plans.

Case Study Plan Details and Executive Compensation

Industry	Pension details[a]	Compensation details
Airline	122,556 participants $7.8 billion underfunded	Company missed nearly $1 billion in required pension contributions while awarding its top 3 executives over $50 million in salary, bonuses, stock, and supplemental retirement benefits.
Airline	61,296 participants $2.8 billion underfunded	Over a period of 8 years, company went through 2 bankruptcies and 4 CEOs, who collectively received over $120 million in salaries, bonuses, severance packages, and supplemental retirement benefits.
Electronics	10,593 participants $318 million underfunded	Company's top 3 executives received nearly $8 million in salary and bonuses, along with over $8 million in other benefits, such as tax reimbursements and car allowances for themselves and family members.
Insurance	7,718 participants $121 million underfunded	Company paid its 2 top executives nearly $20 million each in salary and bonuses, while providing millions in additional benefits, such as personal use of corporate aircraft for family vacations to Europe, millions of dollars in life insurance, and millions of stock options.

Source: GAO analysis of information provided by PBGC, SEC, executives, and corporations.

[a]Underfunded amounts and funding percentage were provided by PBGC and represent the unfunded guaranteed benefits payable, as calculated on a termination basis.

In some cases, plan participants had their benefits reduced due to the underfunding of the plan when it was terminated. For example, a retired pilot saw his monthly pension payment reduced by two-thirds. The reduction in benefits occurred because federal law caps the benefits PBGC can guarantee when it takes over an underfunded pension plan. In addition, PBGC has no oversight power with regard to executive compensation prior to a company's bankruptcy. During bankruptcy, executive compensation must be approved by the bankruptcy court, and after this approval PBGC has extremely limited ability to recover those payments to executives. GAO did not find any illegal activity with respect to executive compensation on the part of either the 10 companies or the 40 executives under review.