TIME
IN-DEPTH

THE BROKEN PR

It was part of the American Dream, a pledge made by corporations to their workers: for your decades of toil, you will be assured of retirement benefits like a pension and health care. Now more and more companies are walking away from that promise, leaving millions of Americans at risk of an impoverished retirement. How can this be legal? A TIME investigation looks at how Congress let it happen and the widespread social insecurity it's causing

BY DONALD L. BARLETT AND JAMES B. STEELE

OMISE

$1,200

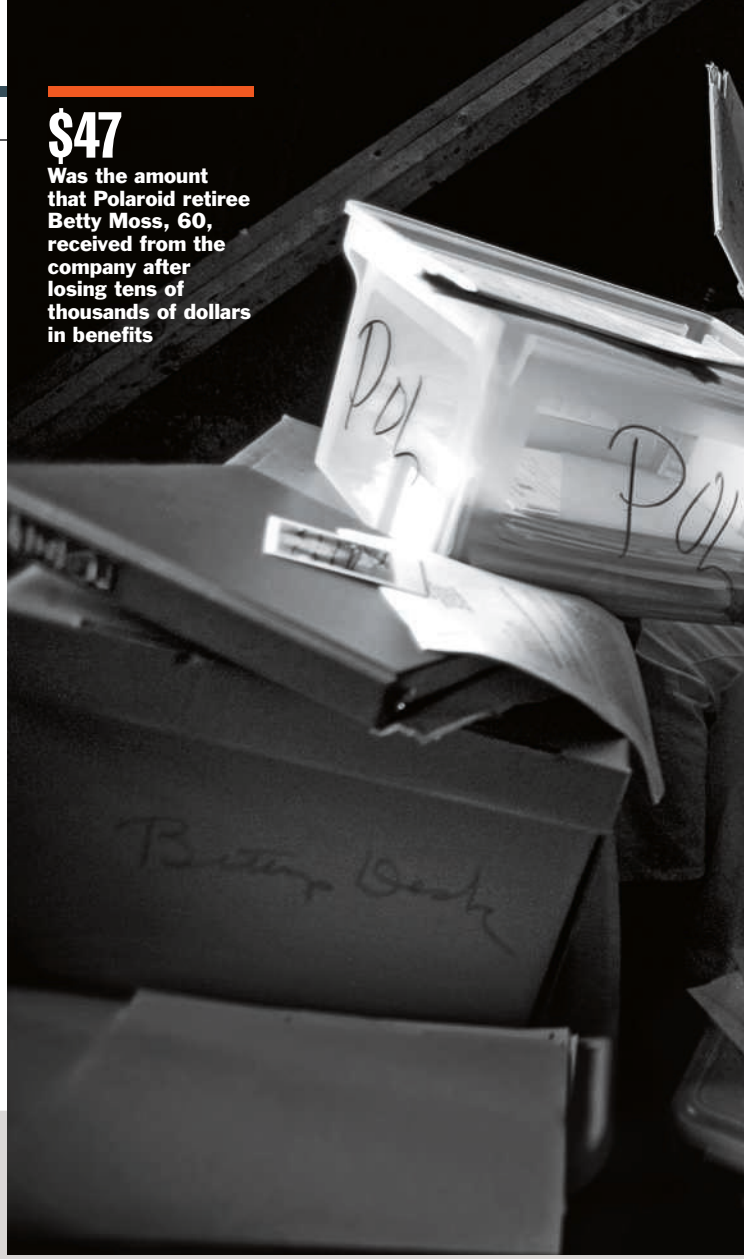
That's how much monthly income Joy Whitehouse, 69, lost when her husband's death benefit was canceled. She collects cans to make ends meet

Photographs for TIME by Steve Liss

THE LITTLE SHED BEHIND JOY WHITEHOUSE'S MODEST home is filled with aluminum cans—soda cans, soup cans and vegetable cans—that she collects from neighbors or finds during her periodic expeditions along the roadside. Two times a month, she takes them to a recycler, who pays her as much as $30 for her harvest of castoffs. When your fixed income is $942 a month, an extra $30 here and there makes a big difference. After paying rent, utilities and insurance, Whitehouse is left with less than $40 a week to cover everything else. So the money from cans helps pay medical bills for the cancer and chronic lung disease she has been battling for years, as well as food expenses. "I eat a lot of soup," says the tiny, spirited 69-year-old, who lives in Majestic Meadows, a mobile-home park for senior citizens near Salt Lake City, Utah.

Whitehouse never envisioned spending her later years this way. She and her husband Alva Don raised four children. In the 1980s they lived in Montana, where he earned a good living as a long-haul truck driver for Pacific Intermountain Express. But in 1986 he was killed on the job in a highway accident attributed to faulty maintenance on his truck, as his company struggled to survive the cutthroat pricing of congressionally ordered deregulation. After her husband's death, Whitehouse knew the future would be tough, but she was confident in her economic survival. After all, the company had promised her a death benefit of $598 every two weeks for the rest of her life—a commitment she had in writing, one that was a matter of law.

She received the benefit payments until October 1990, when the check bounced. A corporate-takeover artist, later sent to prison for ripping off a pension fund and other financial improprieties, had stripped down the business and forced it into the U.S. bankruptcy court. There the obligation was erased, thanks to congressional legislation that gives employers the right to walk away from agreements with their employees. To support herself, Whitehouse had already sold the couple's Montana home and moved to the Salt Lake



$47
Was the amount that Polaroid retiree Betty Moss, 60, received from the company after losing tens of thousands of dollars in benefits

PUBLIC VS. PRIVATE

Where Pensions Are Golden

All pensions and health-care plans are not created equal. At the same time millions of workers in private industry have lost the benefits they once thought they had for life, another group is doing quite nicely, secure in the knowledge that their benefits are protected forever—not by some government agency, but directly by you, the taxpayer.

San Diego $1.4 BILLION in pensions owed but not covered

They are public employees in state and local governments, ranging from teachers to cops. Most collect guaranteed pensions provided through state and local taxes and their own contributions and investment returns. Overall, 90% of public employees enjoy a defined-benefit pension, compared with only 20% (and falling) of the private work force.

Even though the commitment is there, the money isn't. A study by analysts at Barclays Global Investors in San Francisco estimates that public-employee pension funds in the U.S. are short $700 billion. That's more than all state and local governments collected last year in property, sales and corporate income taxes combined. As a result, many employees in the private sector will get hit with a double whammy: while their pensions erode, increasingly they will be hit with cuts in government services and forced to pay higher taxes to cover the pensions of public employees, the kind they can only dream about. In three-fourths of the states, public pensions even come with annual cost-of-living increases, a fringe benefit absent from private pensions.

Some public-employee pension plans are well managed and adequately funded. Most are not. A study of 64 state pension systems by Wilshire Associates, an investment advisory company, found that 54 of them were underfunded by a total of $175.4 billion. The situation is even worse at the municipal level. San Diego, which is on the brink of bankruptcy, is in the hole for $1.4 billion in pensions owed but not covered.

How could this happen? Politicians neglected to put money into pension plans, made poor investments, handed out extraordinarily generous retirement packages and gave special treatment to their fellow politicians. As San Diego city attorney Mike Aguirre put it, "What has happened is that the pension plan has somewhat become a personal-benefit slush fund for council members and senior officials." Not only did high-ranking San Diego officials give themselves preferential treatment for their pensions, they also distributed outsize benefits to city workers. A department director with 39 years of service collects $148,000 a year for life; an assistant port director with 31 years, $132,000. So far, the scandal has cost the mayor his job, six pension-fund trustees have been charged, city services are being slashed and investigations have been launched by the FBI, the SEC and the U.S. Attorney.

San Diego's excesses have attracted attention, but the city is hardly alone. The California Public Employees' Retirement System, better known as CalPERS, handed out a pension check last year for $272,200 to a retired university professor. A former water-district

City area, where she had family and friends. With her savings running out, she applied early (at a reduced rate) for her husband's Social Security. She needed every penny. For health reasons, she couldn't work. She had undergone a double mastectomy. An earlier cancer of the uterus had eaten away at her stomach muscle so that a metal plate and artificial bladder were installed. Her children and other relatives offered to help, but Whitehouse is fiercely self-sufficient. Friends and neighbors pitch in to fill her shed with aluminum. "You put your pride in your pocket, and you learn to help yourself," she says. "I save cans."

Through no fault of her own, Whitehouse had found herself thrust into the ranks of workers and their spouses—previously invisible but now fast growing—who believed the corporate promises about retirement and health care, often affirmed by the Federal Government: they would receive a guaranteed pension; they would have company-paid health insurance until they qualified for Medicare; they would receive company-paid supplemental medical insurance after turning 65; they would receive a fixed death benefit in the event of a fatal accident; and they would have a modest life-insurance policy.

They didn't get those things. And they won't.

Corporate promises are often not worth the paper they're printed on. Businesses in one industry after another are revoking long-standing commitments to their workers. It's the equivalent of your bank telling you that it needs the money you put into your savings account more than you do—and then keeping it. Result: a wholesale downsizing of the American Dream. It began in the 1980s with the elimination of middle-class, entry-level jobs in lower-paying industries—apparel, textiles and shoes, among others. More recently it spread to jobs that pay solid middle-class wages, starting with the steel industry, then airlines and now autos—with no end in sight.

That's why Whitehouse, as difficult as her situation is, is worried more about how her children and grandchildren will cope. And well she should. For while her story is the tale of millions of older Ameri-

general manager collected $206,300. CalPERS, by the way, invests in vulture funds formed by Wilbur Ross, the New York billionaire who specializes in buying bankrupt companies, slashing costs and then selling the firms for an oversize profit. Among the costs pared: pensions. In short, a public-employee pension fund makes money from the killing of private pensions.

Across the U.S., retirement plans in big cities and small ones are underwater. In Philadelphia, the city's three big pension funds were short $2.6 billion at the end of 2003. The police plan had enough assets to cover only 59% of promised retirement checks. That was after the city had sold $1.2 billion in pension-obligation bonds in 1999, the equivalent of paying your mortgage with a credit card. At the other end of the state, Pittsburgh was in even worse shape. In 2003, the police pension plan had enough assets to cover just 33% of promised retirement pay. That, too, was after Pittsburgh peddled $302 million in pension-obligation bonds between 1996 and 1998. In the end, taxpayers in both cities will have to pick up the tab. The place with the biggest problem is the state of Illinois, whose unfunded liability was estimated last year at $43.1 billion, or nearly double the state's budget.

Philadelphia
$2.6 BILLION
what the city's major pension funds were short in '03

And everywhere, the worst is yet to come: health-care obligations. A 2004 study by Workplace Economics Inc. found all 50 state-government employers offered health-care benefits for retirees under age 65. Many who work for state or local governments may retire in their 40s and collect a pension as well as receive subsidized health care. Although future pension costs are well known because contributions and estimates of potential liabilities must be accounted for, such is not the case with health care. Governmental entities pay the bills out of current revenue. As is the case with everyone else's, those bills are exploding. So, too, are future obligations, as the baby boomers prepare to leave their government jobs. This year New Jersey's State Health Benefits Program will cost taxpayers $1 billion for active workers and an additional $900 million for retirees, according to Fred Beaver, director of the Division of Pensions and Benefits. By 2010, the state will spend more on health care for retirees ($2.3 billion) than for active workers ($1.8 billion).

Illinois
$43.1 BILLION
in unfunded pension liabilities—nearly double the state's entire budget

Come 2007, state and local taxpayers everywhere will get their first full picture of current and future health-care costs of public employees. That's when new accounting rules go into effect requiring governments to itemize health-care spending and forecast costs for coming years. The change in bookkeeping will either set off a wave of tax increases, reductions in government services or both. Lest anyone think state and local retirement-plan sponsors may emulate those in corporate America and simply walk away from the promised health-care benefits, think again. More than once, courts have ruled that health benefits promised to government workers (among them judges and legislators)—unlike those promised to workers in private industry—must be honored. ***—By Donald L. Barlett and James B. Steele. With reporting by Jeremy Caplan***

cans, it is also a window into the future for many millions more. A TIME investigation has concluded that long before today's working Americans reach retirement age, policy decisions by Congress favoring corporate and special interests over workers will drive millions of older Americans—a majority of them women—into poverty, push millions more to the brink and turn retirement years into a time of need for everyone but the affluent. The transition is well under way, eroding efforts of the past three decades to eliminate poverty among the aging. From taxes to health care to pensions, Congress has enacted legislation that adds to the cost of retirement and eats away at dollars once earmarked for food and shelter. That reversal of fortunes is staggering, and even those already retired or near retirement will be squeezed by changing economic rules.

Congress's role has been pivotal. Lawmakers wrote bankruptcy regulations to allow corporations to scrap the health insurance they promised employees who retired early—sometimes voluntarily, quite often not. They wrote pension rules that encouraged corporations to underfund their retirement plans or switch to plans less favorable to employees. They denied workers the right to sue to enforce retirement promises. They have refused to overhaul America's health-care system, which has created the world's most expensive medical care without any comparable benefit. One by one, lawmakers have undermined or destroyed policies that once afforded at least the possibility of a livable existence to many seniors, while at the same time encouraging corporations to repudiate lifetime-benefit agreements. All this under the guise of ensuring workers that they are in charge of their own destiny—such as it is.

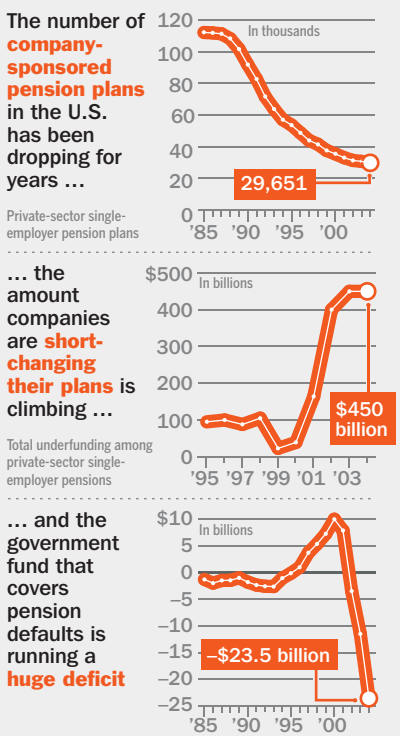
The process has accelerated dramatically this year. Two major U.S. airlines—Delta and Northwest—turned to bankruptcy court to cut costs and delay pension-fund contributions. This followed earlier bankruptcy filings by United Airlines and USAirways, both of which jettisoned their guaranteed pension plans. Then on Oct. 8, the largest U.S. auto-parts maker, Delphi Corp., filed for bankruptcy protection, seeking to cut off medical and life-insurance benefits for its retirees. Delphi's pension funds are short $11 billion. To Elizabeth Warren, a Harvard law professor who specializes in bankruptcy, this is just going to get worse, as ever more companies see the value to their bottom line of "scraping off" employee obligations. "There's no business in America that isn't going to figure out a way to get rid of [these benefit promises]."

That may include the world's largest automaker—General Motors. Although GM chairman Rick Wagoner has insisted that "we don't consider bankruptcy to be a viable business strategy," some on Wall Street are skeptical, given the company's array of problems. Their view was reinforced when GM, the company that dominated the American economy through the 20th century, announced on Oct. 17 that it had reached a precedent-setting agreement with the United Auto Workers leadership to rescind $1 billion worth of health-care benefits for its retirees. If ratified by the union membership, the retrenchment will hasten the end to company-subsidized health care for all retirees. From 1988 to 2004, the share of employers with 200 or more workers offering retiree health insurance plunged, from 66% to 36%. The end result: a fresh and additional burden on retirees. Concluded a report by the Kaiser Family Foundation and Hewitt Associates: "For the majority of workers who retire before they turn age 65 and are eligible for Medicare, the coverage provided under employer plans is often difficult, if not impossible to find anywhere else." For retirees over 65, "employer plans remain the primary source of prescription drug coverage for seniors on Medicare … This coverage is more generous than the standard prescription drug benefit that will be offered by Medicare plans beginning in 2006."

BANKRUPT: At the car-parts maker, benefits are in jeopardy

REBECCA COOK—REUTERS

PENSIONS IN PERIL



Source: Pension Benefit Guaranty Corp.

Perhaps the best yardstick to assess the outlook for the later years is the defined-benefit pension, long the gold standard for retirement because it guarantees a fixed income for life. The number of such plans offered by corporations has plunged from 112,200 in 1985 to 29,700 today. Since 1985, the number of active workers covered in the private sector declined from 22 million to 17 million. They are the last members of what once promised to be the U.S.'s golden retirement era, and they are fast disappearing. From 2001 to 2004, nearly 200 corporations in the FORTUNE 1000 killed or froze their defined-benefit plans. Most recently, Hewlett-Packard, long one of the most admired U.S. companies, pulled the plug on guaranteed pensions for new workers. An HP spokesman said the company had concluded that "pension plans are kind of a thing of the past." In that, HP was merely following the lead of business rival IBM and such other major companies as NCR Corp., Sears Holding Corp. and Motorola. The nation's largest employer, Wal-Mart, does not offer such pensions either. At the current pace, human-resources offices will turn out the lights in their defined-benefit section within a decade or so. At that point, individuals will assume all the risks for their retirement, just as they did 100 years ago.

The shift away from guaranteed pensions was encouraged by Congress, which structured the rules in a way that invites corporations to abandon their defined-benefit plans in favor of defined-contribution plans, increasingly 401(k)s, in which employees set aside a fixed sum of money toward retirement. Many companies also contribute; some don't. Whatever the case, the contributions will never be enough to match the certain and long-term income from a defined-benefit plan. What's more, once the money runs out, that's it. If people live longer than expected, get stuck with unanticipated expenses or suffer losses of other once promised benefits, they will have little besides their Social Security to sustain them.

The dawning perception among Americans that when it comes

to retirement, you're on your own, baby, is surely a reason that President George Bush ran into so much opposition to his proposal to change Social Security from a risk-free plan into one with so-called private accounts. Critics of the 70-year-old system were determined to chip away at Social Security as part of a larger effort to promote what the Bush Administration calls an "ownership society." As Treasury Secretary John Snow told a congressional committee in February 2004: "I think we need to be concerned about pensions and the security that employees have in their pensions. And I think we need to encourage people to save and become part of an ownership society, which is very much a part of the President's vision for America."

Of course, it's much easier to own a piece of America when you have a pension like Snow's. When he stepped down as head of CSX Corp.—operator of the largest rail network in the eastern U.S.—to take over Treasury, Snow was given a lump-sum pension of $33.2 million. It was based on 44 years of employment at CSX. Unlike most ordinary people, who must work the actual years on which their pension is calculated, Snow was employed just 26 years. The additional 18 years of his CSX employment history were fictional, a gift from the company's board of directors.

Snow is not alone. The phantom employment record, as it might be called, is a common executive-retirement practice in corporate America—and one that is spelled out in corporate filings with the Securities and Exchange Commission (SEC). Drew Lewis, the Pennsylvania Republican and onetime head of the U.S. Department of Transportation, got a $1.5 million annual pension when he retired in 1996 as chairman and CEO of Union Pacific Corp. His pension was based on 30 years of service to the company, but he actually worked there only 11 years. The other 19 years of his employment history came courtesy of Union Pacific's board of directors, which included Vice President Dick Cheney. And then there's Leo Mullin, the former chairman and CEO of Delta Air Lines. Under Mullin's stewardship, Delta killed the defined-benefit pension of its nonunion workers and replaced it with a less generous plan. Now, little more than a year after he retired, the airline is in bankruptcy and can dump its pension obligations. But you need not fret about Mullin. On his way out the door, he picked up a $16 million retirement package. It's based on 28.5 years of employment with Delta, at least 21 years more than he worked at the airline.

$1,000
Vivian Persinger gets this monthly pension, but later generations like her daughter's typically don't. Ann Persinger left a job in the fashion industry to care for her mom and lives off savings

HOW SAVINGS CAN BE HIJACKED

AT THE SAME TIME CORPORATE EXECUTIVES ARE PAID RETIREMENT dollars for years they never worked, hapless employees lose supplemental retirement benefits for a lifetime of actual work. Just ask Betty Moss. She was one of thousands of workers at Polaroid Corp.—the Waltham, Mass., maker of instant cameras and film—who, beginning in 1988, gave up 8% of their salary to underwrite an employee stock-ownership plan, or ESOP. It was created to thwart a corporate takeover and "to provide a retirement benefit" to Polaroid employees to supplement their pension, the company pledged. Alas, it was not to be. Polaroid was slow to react to the digital revolution and began to lose money in the 1990s. From 1995 to 1998, the company racked up $359 million in losses. As its balance sheet deteriorated, so did the value of its stock, including shares in the ESOP. In October 2001, Polaroid sought bankruptcy protection from creditors.

By then, Polaroid's shares were virtually worthless, having plummeted from $60 in 1997 to less than the price of a Coke in October 2001. During that period, employees were forbidden to unload their stock, based on laws approved by Congress. But what employees weren't allowed to do at a higher price, the company-appointed trustee could do at the lowest possible price—without even seeking the workers' permission. Rather than wait for a possible return to profitability through restructuring, the trustee decided that it was "in the best interests" of the employees to sell the ESOP shares. They went for 9¢. In short order, a $300 million retirement nest egg put away by 6,000 Polaroid employees was wiped out. Many lost between $100,000 and $200,000.

Moss was one of the losers. Now 60, she spent 35 years at Polaroid, beginning as a file clerk out of high school, then working her way through college at night and eventually rising to be senior regional operations manager in Atlanta. "It was the kind of place people dream of working at," she said. "I can honestly say I never dreaded going to work. It was just the sort of place where good things were always happening." One of those good things was supposed to be the ESOP, touted by the company as a plan that "forced employees to save for their retirement," as Moss recalled. "Everybody went for it. We had been so conditioned to believe what we were told was true."

Once Polaroid entered bankruptcy, Moss and her retired coworkers learned a bitter lesson—that they had no say in the security of benefits they had worked all their lives to accumulate. While the federal Pension Benefit Guaranty Corp. (PBGC) agreed to make good on most of their basic pensions, the rest of their benefits—notably the ESOP accounts, along with retirement health care and severance packages—were canceled. The retirees, generally well educated and financially savvy, organized to try to win back some of what they had lost by petitioning bankruptcy court, which would decide how to divide the company's assets among creditors. To no avail: Polaroid's management had already undercut the employees' effort. Rather than file for bankruptcy in Boston, near the corporate offices, the company took its petition to Wilmington, Del., and a bankruptcy court that had developed a reputation for favoring corporate managers. There, Polaroid's management contended that the company was in terrible financial shape and that the only option was to sell rather than reorganize. The retirees claimed that Polaroid executives were undervaluing the business so the company could ignore its obligations to retirees and sell out to private investors.

The bankruptcy judge ruled in favor of the company. In 2002 Polaroid was sold to One Equity Partners, an investment firm with a special interest in financially distressed businesses. (One Equity was a unit of Bank One Corp., now part of JPMorgan Chase.) Many retirees believed the purchase price of $255 million was only a fraction of the old Polaroid's value. Evidence supporting that view: the new owners financed their purchase, in part, with $138 million of Polaroid's own cash.

Employees did not leave bankruptcy court empty-handed. They all got something in the mail. Moss will never forget the day hers arrived. "I got a check for $47," she recalled. She had lost tens of thousands of dollars in ESOP contributions, health benefits and severance payments. Now she and the rest of Polaroid's other 6,000 retirees were being compensated with $47 checks. "You should have heard the jokes," she said. "How about we all meet at McDonald's and spend our $47?"

Under a new management team headed by Jacques Nasser, former chairman of Ford Motor Co., Polaroid returned to profitability almost overnight. Little more than two years after the company emerged from bankruptcy, One Equity sold it to a Minnesota entrepreneur for $426 million in cash. The new managers, who had received stock in the postbankruptcy Polaroid, walked away with millions of dollars. Nasser got $12.8 million for his 1 million shares. Other executives and directors were rewarded for their efforts. Rick Lazio, a four-term Republican from West Islip, N.Y., who effectively gave up his House seat for an unsuccessful Senate run against Hillary Rodham Clinton in 2000, collected $512,675 for a brief stint as a director. That amounted to nearly twice the $282,000 paid to all 6,000 retirees. The $12.08 a share that the new managers received for little more than two years of work was 134 times the 9¢ a share handed out earlier to lifelong workers.

THE $12.08 A SHARE THAT POLAROID'S NEW MANAGERS RECEIVED WAS 134 TIMES THE 9¢ A SHARE HANDED OUT TO LIFELONG WORKERS

LET'S BREAK A DEAL

WASHINGTON HAS A RICH HISTORY OF CATERing to special and corporate interests at the expense of ordinary citizens. Nowhere is this more evident than in legislation dealing with company pensions. It has been this way since 1964, when carmaker Studebaker Corp. collapsed after 60 years, junking the promised pensions of 4,000 workers not yet eligible for retirement, pensions the company had spelled out in brochures for years: "You may be a long way from retirement age now. Still, it's good to know that Studebaker is building up a fund for you, so that when you reach retirement age you can settle down on a farm, visit around the country or just take it easy, and know that you'll still be getting a regular monthly pension paid for entirely by the company."

Oops. There oughta be a law.

It took Congress 10 years to respond to the Studebaker pension abandonment by writing the Employee Retirement Income Security Act (ERISA) of 1974. It established minimum standards for retirement plans in private industry and created the PBGC to guarantee them. Then President Gerald Ford summed up the measure when he signed it into law that Labor Day: "This legislation will alleviate the fears and the anxiety of people who are on the production lines or in the mines or elsewhere, in that they now know that their investment in private pension funds will be better protected."

Perhaps for some, but far from all.

Another group that had no pension worries would turn out to be the biggest winners under the bill. Congress wrote the law so broadly that moneymen could dip into pension funds and remove cash set aside for workers' retirement. During the 1980s, that's exactly what a cast of corporate raiders, speculators, Wall Street buyout firms and company executives did with a vengeance. Throughout the decade, they walked away with an estimated $21 billion earmarked for workers' retirement pay. The raiders insisted that they took only excess assets that weren't needed. Among the pension buccaneers: Meshulam Riklis, a once flamboyant Beverly Hills, Calif., takeover artist who skimmed millions from several companies, including the McCrory Corp., the onetime retail fixture of Middle America that is now gone; and the late Victor Posner, the Miami Beach corporate raider who siphoned millions of dollars from more than half a dozen different companies, including Fischbach Corp., a New York electrical contractor that he drove to the edge of extinction. Those two raiders alone raked off about $100 million in workers' retirement dollars—all perfectly legal, thanks to Congress. By the time all the billions of dollars were gone and the public outcry had grown too loud to ignore, Congress in 1990 belatedly rewrote the rules and imposed an excise tax on money removed from pension funds. The raids slowed to a trickle.

During those same years, the PBGC, which insures private pension plans, published an annual list of the 50 most underfunded of those plans. In shining a spotlight on those that had fallen behind in their contributions, the agency hoped to prod companies to keep current. Corporations hated the list. They maintained that the PBGC's methodology did not reflect the true financial condition of their pension plans. After all, as long as the stock market went up—and never down or sideways—the pension plans would be adequately funded. Congress liked that reasoning and, in 1994, reacting to corporate claims that the underfunded list caused needless anxiety among employees, voted to keep the data secret. When the PBGC killed its Top 50 list, David M. Strauss, then the agency's executive director, explained, "With full implementation of [the 1994 pension law], we now have better tools in place." PBGC officials were so bullish about those "better tools," including provisions to levy higher fees on companies ignoring obligations to their employees, they predicted that underfunded pension plans would be a thing of the past. As a story in the Los Angeles *Times* put it, "PBGC officials said the act nearly guarantees that large underfunded plans will strengthen and the chronic deficits suffered by the pension guaranty organization will be eliminated within 10 years."

Not even close; instead they accelerated at warp speed. In 1994 the deficit in PBGC plans was $31 billion. Today it's $450 billion, or $600 billion if one includes multiemployer plans of unionized employees who work for more than one business in such industries as construction.

Since the PBGC no longer publishes its Top 50 list, anyone looking for even remotely comparable information must sift through the voluminous filings of individual companies with the SEC or the Labor Department, where pension-plan finances are recorded, or turn to the reports of independent firms such as Standard & Poor's. The findings aren't reassuring. According to S&P, Sara Lee Corp. of Chicago, a global maker of food products, ended 2004 with a pension deficit of $1.5 billion. The company's pension plans held enough assets to cover 69.8% of promised retirement pay. Ford Motor Co.'s deficit came in at $12.3 billion. It could write retirement checks for 83% of money owed. ExxonMobil Corp. was down $11.5 billion, with enough money to issue retirement checks covering 61% of promised benefits. Exxon had extracted $1.6 billion from its pension plans in 1986 because they were deemed overfunded. The company explained then that "our shareholders would be better served" that way.

In reality, the deficits in many cases are worse than the published data suggest, which becomes evident when bankrupt corporations dump their pension plans on the PBGC. Time after time, the agency has discovered, the gap between retirement holdings and pensions owed was much wider than the companies reported to stockholders or employees. Thus LTV Corp., the giant Cleveland steelmaker, reported that its plan for hourly workers was about 80% funded, but when

it was turned over to the PBGC, there were assets to cover only 52% of benefits—a shortfall of $1.6 billion to be assumed by the agency.

How can this be? Thanks to the way Congress writes the rules, pension accounting has a lot in common with Enron accounting, but with one exception: it's perfectly legal. By adjusting the arcane formulas used to calculate pension assets and obligations, corporate accountants can turn a drastically underfunded system into a financially healthy one, even inflate a company's profits and push up its stock price. Ethan Kra, chief actuary of Mercer Human Resources Consulting, once put it this way: "If you used the same accounting for the operations side [of a corporation] that is used on pension funds, you would be put in jail."

The old PBGC lists of deadbeat pension funds served another purpose. They were an early-warning sign of companies in trouble—a sign often ignored or denied by the companies themselves. "Somehow, if companies are making progress toward an objective that's consistent with [the PBGC's], then I think it's counterproductive to be exposed on this public listing," complained Gary Millenbruch, executive vice president of Bethlehem Steel, a perennial favorite on the Top 50.

Time proved Millenbruch wrong. The early warnings about Bethlehem's pension liabilities turned out to be right on target. Bethlehem Steel eventually filed for bankruptcy, and the PBGC took over its pension plans—which were short $3.7 billion. The company, once America's second largest steelmaker, no longer exists. In the Top 50 pension deadbeats of 1990, the PBGC reported that the funds of Pan Am Corp., operator of what was once the premier global airline, had only one-third of the assets needed to pay its promised pensions. Pan Am does not exist today.

$800

Future shock? Pensionless Betty Dizik, 78, spends that every month for medications. To help pay her bills, she works at H&R Block

Contrary to the assertions of company executives, PBGC officials and members of Congress, one company after another on the 1990 Top 50 disappeared. To be sure, many are still around. Like General Motors. That year, the PBGC reported a $1.9 billion deficit in GM's pension plans. Today, by GM's reckoning, the deficit is $10 billion. The PBGC estimates it at $31 billion. As for the pension-fund deficit, if GM or any other company can't come up with the money, the PBGC will cover retirement checks up to a fixed amount—$45,600 this year—or until the agency runs out of money. That's projected to occur around 2013. At that point, Congress will be forced to decide whether to bail out the agency at a cost of $100 billion or more. When judgment day comes, other economic forces will influence the decision. Medicare, which is in far worse shape than Social Security, already is in the red on a cash basis. In what promises to play out as a mean-spirited competition, Congress has laid the groundwork to pit individual citizens against one another, to fight over the budget scraps available for those and all other programs.

WHO'S LEFT HOLDING THE BAG?

IN THE MEANTIME, PENSION PLANS THAT COMPANIES ARE DUMPing are so short of assets that the PBGC's financial position is rapidly deteriorating. In 2000, the agency operated with a $10 billion surplus. By 2004, the surplus had turned into a $23 billion deficit. By the end of this year, the shortfall may top $30 billion. As the Government Accountability Office put it earlier this year: "PBGC's accumulated deficit is too big, and plans simply do not have enough money in the system to back up the long-term promises many employers have made to their workers." To add to its woes, the agency has a record 350 active bankruptcy cases, according to Bradley D. Belt, executive director. Of those, Belt told Congress, "37 have underfunding claims of $100 million or more, including six in excess of $500 million."

Congress idly watched United Airlines and USAirways unload their pension obligations on the PBGC. Now Delta and Northwest are positioned to do the same. That increases the likelihood that other old-line carriers like American and Continental will be forced to do likewise. Northwest's CEO, Douglas Steenland, bluntly told the Senate Finance Committee last June, "Northwest has concluded that defined-benefit plans simply do not work for an industry that is as competitive and vulnerable from forces ranging from terrorism to international oil prices that are largely beyond its control, as is the airline industry." In that, he merely echoed Robert Crandall, former chief of American Airlines, who told another Senate committee in October 2004: "All the [older] legacy carriers must get rid of their defined-benefit pension plans." In all, the pension funds of those airlines are short $22 billion.

The sudden shift from annual pensions of a guaranteed amount for a lifetime to a lesser and uncertain amount for a limited period is taking its toll on workers. Robin Gilinger, 42, a United flight attendant for 14 years, sees a frightening financial picture. She has another 14 years to go before she can take early retirement. Under the old pension plan she would have received a monthly check of $2,184. Because of givebacks, that's down to $776—a poverty-level annual income of $9,312 by today's standards, even before inflation takes its toll over the coming years. And there is the distinct possibility it could be less than that. Her husband lost his pension in a corporate takeover.

Gilinger, who lives with her husband and 9-year-old daughter in Mount Laurel, N.J., is not planning on early retirement and certainly couldn't afford it in the current situation. But she has concerns reminiscent of Joy Whitehouse's experience. "It's scary. What if something happened to my husband or if I got disabled?" she asks. "Then I'm looking at nothing. Above all, what's frustrating is that we were told we were going to get our pension and we're not. The senior flight attendants, the ones who've worked 30 years, they're worried how they're going to survive." Each time the PBGC takes on another failed pension plan, it makes the pension-insurance program more expensive for the remaining businesses. That in turn prompts other companies to unload their plans. The PBGC receives no tax money. Its revenue comes from investment income and premiums that corporations pay on their insured workers. As a result, soundly managed companies with solid retirement plans are compelled to pick up the costs for plans in mismanaged companies as well as those that just want to unload their employee benefits. A proposal by the Bush Administration to overhaul the

system, critics fear, would actually increase the likelihood that more companies will kill existing plans and that other companies considering establishment of a defined-benefit plan will choose a less expensive option. An analysis of 471 FORTUNE 1000 companies by Watson Wyatt Worldwide, a global consulting firm, concluded "healthy companies would see their total PBGC premiums increase 240% under the proposal, more than double the 113% increase for financially troubled employers."

Barring a reversal in government policies, the PBGC could require a multibillion-dollar taxpayer bailout. The last time that happened was during the 1980s and '90s, when another government insurer, the Federal Savings and Loan Insurance Corp., was unable to keep up with a thrift industry spinning out of control. The Federal Government eventually spent $124 billion. Unlike the FSLIC, which was backed by the U.S. government, the PBGC is not. That means an indifferent Congress could turn its back on the retirement crash. By the agency's estimate, that would translate into a 90% reduction in pensions it currently pays.

WHERE THE 401(K) FALLS SHORT

THE UNIVERSAL REPLACEMENT TO THE PENsion, by the consensus of the Bush Administration, Congress, Wall Street and corporate America, is the ubiquitous 401(k). As Bush explained at a gathering at Auburn University in Montgomery, Ala., earlier this year, "When I was young, I didn't know anything about 401(k)s because I don't think they existed. Defined-benefit plans were the main source of retirement. Now they've got what they call defined-contribution plans. Workers are taking aside some of their own money and watching it grow through safe and secure investments."

Tell that "safe and secure" part to the folks at Enron, who lost $1 billion in their 401(k)s. Or WorldCom employees, who also lost $1 billion. Or Kmart employees, who lost at least $100 million. Welcome to the 21st century version of Studebaker.

THE 401(K) WAS NEVER INTENDED AS A RETIREMENT PLAN. IT EVOLVED OUT OF A TAX BREAK THAT CONGRESS AWARDED TO EXECUTIVES

Truth to tell, the 401(k) was never intended as a retirement plan. It evolved out of a tax break that Congress awarded to corporate executives in 1978, allowing them to defer part of their salaries and cut their tax bills. At the time, federal income-tax rates were much higher for upper-income individuals—the top rate was 70%. (Today it's half that.) It wasn't until several years later that companies began to make 401(k)s available to most employees. Even then, the idea was to encourage saving and provide a tax shelter, not to substitute the plans for pensions. By 1985, assets in 401(k)s had risen to $91 billion, as more companies adopted plans. Still, the amount was only about one-tenth that in guaranteed pensions.

All that changed as corporations discovered they could improve their bottom lines by shifting workers out of costly defined-benefit plans and into much cheaper (for companies) and more risky (for workers) uninsured 401(k)s. In effect, employees took a hefty pay cut and barely seemed to notice. Lawmakers and supporters advocated the move by pointing to a changing economy in which employees switch jobs frequently. They maintained that because defined-benefit plans are based on length of service and an average of salaries over the last few years of work, they don't meet today's needs. But Congress could have revised the rules and made the plans portable over a working life, just like a 401(k), and retained the guarantee of a fixed retirement amount, just like corporations do for their executives.

As it is, 401(k) portability often impedes efforts to save for retirement. As today's job hoppers move from one employer to another, most succumb to the temptation to cash out their 401(k)s and spend the money, a practice hardly reflective of a serious retirement system. Today $2 trillion is invested in those accounts. But to understand why the 401(k) is no substitute for a defined-benefit pension, look beneath that big number. Earlier this year the airwaves crackled with announcements that the value of the average 401(k) had climbed to $61,000 in 2004. Noticeably absent from many accounts was any reference to the median value, a more accurate indicator of the health of America's retirement system. That number was $17,909, meaning half held less, half more. Nearly 1 in 4 accounts had a balance of less than $5,000.

SO IT IS THAT IN THE END, ALL BUT THE MOST AFFLUENT CITIZENS will have two options. They can join Joy Whitehouse in the can-collection business, or they can follow in the footsteps of Betty Dizik of Fort Lauderdale, Fla., who is into her sixth decade as a working American. She has no choice. Dizik did not lose her pension. Like most Americans, she never had one, or a 401(k). After her husband died in 1968, she held a series of jobs managing apartments and self-storage facilities, tasks that brought her into contact with the public. "I like working with people," she said. But none of the jobs had a pension.

Hence the importance of her monthly Social Security check, which comes to less than $1,000. The benefit barely covers her medications for heart problems and diabetes, which she says can cost her as much as $800 a month. The new Medicare prescription-drug benefit, she estimates, will still leave her with substantial out-of-pocket expenses. To pay rent, utilities, gas for her car and other living expenses, Dizik has continued to work since she turned 65. For 10 years, she was with Broward County Meals on Wheels, which provides meals to seniors, some younger than she is. But three years ago, when she turned 75, driving 100 miles a day began exacting a toll.

Now she works at a nearby office of H&R Block, the tax-return service. "I do everything there," she says. "I am the receptionist. The cashier. I open the office, close the office. I'm the one who takes the money to the bank. I do taxes." A widow, she lives alone in an apartment building for seniors. Her four children help with the rent, but she is reluctant to accept anything more. "All my children are great, but I do not like to ask them for anything," she said. "I'm waiting for myself to get old, when I will need their help." For the time being, she says, "I'm going strong. I have to."

She doesn't have much hope that Washington will be able to help seniors like her. "They don't understand what it's like to worry: Are you going to be able to make it every month, to pay the telephone bill, the electric bill? How much are you going to have left over for food and other expenses?" Her key to getting by each month is forcing herself to live within a strict budget. "You learn to live very carefully," she said. Although Dizik really would like to retire, she can't. "I will be working the rest of my life." Soon, she will have lots of company. ***—With reporting by Laura Karmatz, Lisa McLaughlin and Dody Tsiantar, and research by Joan Levinstein***