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Congress to Weigh Easing U.P.S. Role on Pension Funds

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Congress is expected to consider a proposal early next year that would shift responsibility for billions of dollars in future pension promises to the federal government from United Parcel Service.

U.P.S. is chafing at its legal requirement to cover retirees of other companies through its participation in multiemployer plans, in which many employers pool the cost of providing pensions for union members. While the prospects for the proposal are unclear, U.P.S. has gained support from several lawmakers, including some in Georgia, Kentucky and Ohio.

These plans allow workers to take their benefits with them when they switch jobs and are common in such fields as grocery stores, bakeries, machine shops and construction. About 35 million Americans are covered by traditional pension plans paid for by a single company, and about 9.5 million people participate in these multiemployer plans.

When one company in such a plan goes out of business, the surviving companies have to make good on its pension promises. In trucking, many companies have disappeared since the industry was deregulated in 1980.

U.P.S. is the largest company in the pension plans of the International Brotherhood of Teamsters, with potential responsibility for billions of dollars of obligations to its retirees.

"We have serious concerns over the financial condition of these plans," said David Bolger, a spokesman for U.P.S.

The company says it remains willing to pay for its own employees' pensions and even for the obligations it has already assumed from other companies. But it wants to make each company solely responsible for its own workers' benefits in the future. If a company defaults, those obligations would then go to the federal government.

Though it seems odd for U.P.S. to have to pay the pensions of its weaker competitors, the consequences of its legislative proposal could be stark. Some participants in the Teamster plans could find their pensions sharply reduced if their companies grow short of cash; the multiemployer pension model could fade away; and the struggling government agency that insures pensions could wind up shouldering even more debt. The Teamsters' president, James P. Hoffa, has accused U.P.S. of trying to persuade Congress to give it a labor concession the union already beat back.

U.P.S. has found political support from leading congressmen in Georgia, Ohio and Kentucky, where it is a big employer, and says it is trying to encourage thoughtful debate about a financial problem, not derail a popular pension plan.

Last year, Mr. Bolger said, U.P.S. contributed a little more than $1 billion to 32 regional Teamster plans, more than $8,000 for every covered U.P.S. employee.

The company declined to specify how much debt is involved in those plans, but the biggest one, the Central States pension fund, owed $31 billion to about 460,000 workers and retirees at the end of 2002. It had just $18.5 billion in assets. U.P.S., which had $31 billion in sales last year, is the fourth-largest employer in the private sector in the United States, trailing Wal-Mart, General Motors and McDonald's.

Bills to amend the pension laws as outlined by U.P.S., a step called partitioning, were introduced in the House and Senate this year. Before adjourning this month, the Senate agreed to make pension legislation â€” including multiemployer issues â€” one of its first items of business when it reconvenes in January.

Partitioning the Teamster plans could ultimately mean some of the union's members, working at shaky companies, could lose part of their benefits. The government insures pensions in case an employer defaults, but its coverage is limited, and the limits for multiemployer pensions are exceptionally low â€” just $12,900 a year for a worker who is 65 when his or her pension plan fails.

That is well below the $36,000 pension a Teamster now earns by retiring at age 65 after 30 years of service. The government guarantees pensions up to about $44,000 a year when a single-employer plan fails.

Some pension specialists worry that if U.P.S. succeeds with the Teamster plans, it could provide a blueprint for other companies looking to escape pooled pension obligations, in other industries where a few large, successful companies subsidize many small, weak ones. That could doom the multiemployer model, which has been a fixture of the union workplace since the end of World War II.

This type of plan allows small businesses to offer pensions that they might not be able to afford on their own. It also weathers financial shocks and recessions better than single-employer plans, because the ups and downs of the participating companies often offset each other.

Partitioning the Teamster plans would thus add to the woes of the Pension Benefit Guaranty Corporation, the agency that provides pension insurance. These plans have posed little problem for the agency until now. In its 28-year existence the agency has taken over 3,122 single-employer pension plans, but has had to rescue only 31 multiemployer plans.

Mr. Hoffa accused U.P.S. of mounting "a direct attack on the pension security of our members," in a letter to the company's chief executive, Michael Eskew, last month.

"The Teamsters Union does not intend to sit idly by as U.P.S. attempts to use its political influence to push our funds into further crisis," Mr. Hoffa warned. The union has been pushing for a different change in the pension laws, to allow multiemployer plans more time to make up for their recent stock market losses. Teamster officials declined to be interviewed about pension matters.

Norman Black, a spokesman for U.P.S., says the company is not trying to kill this type of plan or challenge the union.

"Our concern is making changes to ensure that these plans don't get into any more trouble," he said. "It's not meant as some assault on multiemployer plans or on the Teamsters. We just want to make these things stand tall without going under."

Among other measures, U.P.S. is suggesting that new rules be imposed so that plan trustees could not promise greater benefits to workers if the plan assets fall below a certain level.

This is not the first time U.P.S. has tangled with the Teamsters over pensions. During contract negotiations in 1997, U.P.S. proposed paying its obligations and pulling out of the Teamster plans, so it could set up its own single-employer pension fund for the 120,000 Teamsters on its payroll. U.P.S. promised it would treat these Teamsters well, sweetening their benefits. But the union rejected that idea â€” then sweetened the benefits of all 460,000 Teamsters in the Central States plan to the level U.P.S. had intended to give its own employees, company officials say.

U.P.S. says that it has almost no control over the level of benefits the plan pays, because benefits are set by each plan's board of trustees. The boards are evenly divided between Teamster officials and representatives of the various companies, but on the Central States board, U.P.S. has only one trustee out of 10.

"This is a situation that needs to be addressed," Mr. Bolger said. "We are the growth engine for the Teamsters. We're hiring people."

In November, the Central States plan reduced benefits, citing several years of investment losses and the inability of small, marginally profitable trucking companies to make pension contributions.

"The union is doing everything in its power to pressure the employers to increase contributions," the five Teamsters on the board said in a letter to the members. "The strongest resistance to increasing contributions is coming from some of the Teamsters' most powerful employers."

U.P.S. has quickly won support for its pension initiative in Washington. Bills were introduced in Congress by Representative Patrick Tiberi, Republican of Ohio, and Senator Saxby Chambliss, Republican of Georgia. U.P.S. is a leading employer in Ohio; its headquarters are in Atlanta.

In November, Senator Mitch McConnell, Republican of Kentucky, also made a show of support. U.P.S. operates a large sorting hub in Louisville and is one of Kentucky's largest employers.

Mr. McConnell is married to Elaine L. Chao, the secretary of labor, who is responsible for enforcing the federal labor laws, including the 1980 pension law that U.P.S. hopes to amend. She is also the ex oficio chairwoman of the pension agency, and has expressed concern about the insurer's deteriorating finances. At the moment, the only part of the agency showing a surplus is its multiemployer division. That surplus could vanish if the government had to rescue thousands of retired Teamsters.

A spokesman for Ms. Chao said she had not yet taken a position on the multiemployer pension issue, but was able as a matter of routine to separate her own policies from the positions taken by her husband.

Labor and pension advocates are distressed at how quickly U.P.S. has built support for its initiative.

"U.P.S. is a heavy hitter on the Hill," said Randy DeFrehn, executive director of the National Coordinating Committee for Multiemployer Plans, an organization that represents such plans in Washington. "They give a lot of money, and that gets a lot of attention."

Federal Election Commission records show that U.P.S. had the nation's largest corporate political action committee in the last election cycle, with $4.7 million in receipts and $3.6 million in disbursements.

U.P.S. says it is not trying to avoid paying pensions. On the contrary, Mr. Bolger said, the company wants to protect its own employees' pensions, which are being diluted in the growing pool of overall Teamster benefits.

"We are trying to cover whatever we've negotiated in 2002," said Mr. Bolger, citing the year of the company's most recent labor contract. "But at the same time, we don't live in a vacuum. As part of a multiemployer plan, you have all these other companies that are going south."

The industry's demographics suggest that the situation will get worse. When the law governing multiemployer plans was enacted in 1980, there were four active Teamsters supporting every retiree, Mr. Bolger said. But the retirees now outnumber active workers.

Pension funds that have more retirees than active workers are difficult to sustain, because they can end up paying more each year in benefits than they receive in contributions from companies. The problem afflicts many multiemployer plans, either because the underlying industries have dwindled away, or because of shakeouts in which companies with union work forces have disappeared and been replaced by nonunion companies that did not join the pension plans.

Such companies have shunned the union pension plans, said Daniel F. McGinn, an actuary in Anaheim, Calif., who specializes in multiemployer plans. Since 1980, the law has required any company wishing to withdraw from a multiemployer plan to pay its share of any deficit. That has discouraged new companies from joining, Mr. McGinn said, cutting off the supply of younger workers who could generate money for the retirees' benefits.

The 1980 law is the one U.P.S. hopes to change.

"If they could separately account for their own workers, they'd be fully funded," Mr. McGinn said. "Every employer who feels that way is probably countered with one, two or three other employers in a dying industry."