FPA FINANCIAL PLANNING PERSPECTIVES

WHAT TO DO IF YOUR PENSION PLAN IS IN TROUBLE

Is your pension plan in trouble? And if it is, what can you do about it?

Traditional pension plans are defined benefit plans in which the employer promises to pay a specific amount, usually monthly, based on years of service and salary in the last years before retirement. In the wake of the recent stock market decline, the defined-benefit pension plans of many private and public employers are underfunded, and some may not be able to meet their pension obligations. Several bankrupt companies have shut down their pension plans, and other corporate and public plans are cutting back benefits.

The Pension Benefit Guaranty Corporation (PBGC), a federal agency that insures private pension plans, ran a $3.6 billion deficit for fiscal 2002 bailing out corporations, and it estimates that corporate retirement plans are underfunded by $300 billion. The PBGC, by the way, insures only private pension plans, not public pension plans or defined contribution plans such as 401(k)s, nor does it insure retiree health care coverage.

How do you find out if your employer's pension plan is in trouble, and what do you do if it is in trouble?

First, don't panic. While many pension plans are technically underfunded, it doesn't necessarily mean they can't or won't meet future obligations. A plan is considered underfunded if for three consecutive years its assets are less than 90 percent of what is needed to fund current and *future* obligations (or one or two years at less than 80 percent). Plans have several years to make up any shortfalls. Companies with strong cash flows are putting extra cash into their plans, and a market recovery, whenever that occurs, may also help shrink the gap. In fact, in the late 1990s, at the peak of the bull market, many pension plans were overfunded.

For those corporate plans that do falter, the PBGC will step in to continue payments to retirees. But here's where employees and retirees need to start paying special attention. The PBGC will keep most retirees whole, but the PBGC caps payments at $43,977 a year, or $3,665 a month, per retiree, so higher paid retirees, and in some cases other employees, likely won't receive all they were promised by their employer.

If you haven't already read about your employer's pension woes in the newspaper—airlines, steel companies, auto manufacturers and some state pension plans have been among the most publicized—you can take some steps to see how your plan is doing.

Start with what's called a Summary Annual Report. This states, among other things, how the plan's investments have fared since the last report (SARs generally are issued annually, though smaller plans only have to do it every three years). The investment statements don't give a full picture, however, because they say nothing about liabilities. The real key is the Minimum Funding Standards section, which contains an actuary's statement indicating whether the plan does or does not meet current minimum funding standards.

For a more complete picture, request a copy of the plan's Form 5500. To learn what to look for in these documents, go to the Employee Benefits Security Administration's Web site (www.dol.gov/ebsa/) to get an online copy of its booklet, *Protect Your Pension*, or call for a copy at 866-444-3272. For more information on the Pension Benefit Guaranty Corporation, go to www.pbgc.gov.

What if you find out your employer's plan is in trouble? If you're already retired, there's not much you can do except tighten your financial belt, possibly adjust your personal portfolio and hope for the best.

Those about to retire who are worried about the future financial health of their employer may want to consider taking their pension payments in a lump sum instead of in guaranteed lifetime monthly payments, though many plans do not allow the lump-sum option. The downside to this strategy is that you must invest and manage the lump sum well enough to be sure it generates at least the equivalent payout you would have received from the employer's annuity.

Workers with years to go before retirement might want to beef up contributions to a 401(k) or similar plan if offered in addition to the pension plan, or use other vehicles such as an IRA or annuity.

But before doing anything, consult with your CERTIFIED FINANCIAL PLANNER™ professional to review your options.

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