Highlights

Highlights of GAO-10-492, a report to congressional committees

Why GAO Did This Study

Over $81 billion has been committed under the Troubled Asset Relief Program (TARP) to improve the domestic auto industry's competitiveness and long-term viability. The bulk of this assistance has gone to General Motors (GM) and Chrysler, who sponsor some of the largest defined benefit pension plans insured by the federal Pension Benefit Guaranty Corporation (PBGC). As part of GAO's statutorily mandated oversight of TARP, this report examines:

(1) the impact of restructuring on GM's and Chrysler's pension plans;

(2) the impact of restructuring on auto supply sector pension plans;

(3) the impacts on PBGC and plan participants should auto industry pension plans be terminated; and

(4) how the federal government is dealing with the potential tensions of its multiple roles as pension regulator, shareholder, and creditor.

To conduct this study, GAO interviewed officials at GM, Chrysler, a labor union, a supplier association, the Departments of the Treasury and Labor, and PBGC; and reviewed relevant statutes, reports, and documents concerning the automakers' restructuring and pension plan funding.

Treasury and PBGC generally agreed with the report's findings. Their technical comments and the technical comments provided by GM, Chrysler, and Delphi, were incorporated as appropriate.

View GAO-10-492 or key components.
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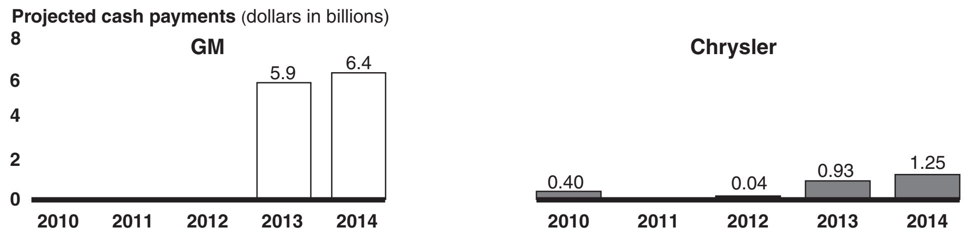
TROUBLED ASSET RELIEF PROGRAM

Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future

What GAO Found

The new GM and the new Chrysler that were established during each company's bankruptcy process in the summer of 2009 assumed sponsorship for all the old companies' U.S. defined benefit plans. Although the pension plans have been maintained, their future remains uncertain. According to current company projections, large contributions may be needed to comply with federal pension funding requirements within the next 5 years.

Projected Contributions Needed to Fund GM and Chrysler Pension Plans (2010-2014)



Source: GAO analysis of GM and Chrysler funding projections for all U.S. qualified defined benefit pension plans each sponsors, based on valuation methods for required contributions defined under the Pension Protection Act.

Officials at the Department of the Treasury, which oversees TARP, expect both GM and Chrysler to return to profitability. If this is the case, then the companies will likely be able to make the required payments and prevent their pension plans from being terminated. However, if GM and Chrysler were not able to return to profitability and their pension plans were terminated, PBGC would be hit hard both financially and administratively. In early 2009, prior to the new companies assuming sponsorship, PBGC estimated that its exposure to potential losses for GM's and Chrysler's plans to be about $14.5 billion.

Meanwhile, automaker downsizing and the credit market crisis have created significant stress for suppliers and their pensions. During 2009, there was a rise in the number of supplier bankruptcies, liquidations, and pension plan terminations. In July, the nation's largest auto parts supplier, Delphi Corporation, terminated its pension plans with expected losses to PBGC of over $6.2 billion. Across the auto sector as a whole, in January 2009, PBGC estimated that unfunded pension liabilities totaled about $77 billion, with PBGC's exposure for potential losses due to unfunded benefits of about $42 billion, leaving plan participants to bear the potential loss of the $35 billion difference through reduced benefits.

Moreover, until Treasury either sells or liquidates the equity it acquired in each of the companies in exchange for the TARP assistance, its role as shareholder creates potential tensions with its role as pension regulator and overseer of PBGC in its role as pension insurer. In particular, tensions could arise if decisions must be made between allocating funds to company assets (thereby protecting shareholders, including taxpayers) or to pension fund assets (thereby protecting plan participants). As GAO reported previously, better communication with Congress and others about TARP interests could help mitigate such tensions.