

Pension Obligations

Pension Obligations

Who owns the company anyhow?

Moderator:

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- Carl Lane
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- David Treadwell
 - Director and former CEO, Oxford Automotive, Inc.

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Pension Benefit Guaranty Corporation



Bradley Belt
Executive Director
Pension Benefit Guaranty
Corporation

- The Pension Benefit Guaranty Corporation (“PBGC”) was created by the Employee Retirement Income Security Act of 1974 (“ERISA”) to encourage the continuation and maintenance of voluntary private pension plans, provide timely and uninterrupted payment of pension benefits, and keep pension insurance premiums at a minimum
 - Defined benefit pension plans promise to pay a specified monthly benefit at retirement, commonly based on salary and years on the job
- PBGC receives no funds from general tax revenues
 - Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusted by PBGC, and recoveries from the companies formerly responsible for the plans
- The PBGC protects the pensions of 44.4 million workers and retirees in 31,200 private defined benefit pension plans, including 34.6 million people covered by 29,651 single-employer plans and 9.8 million people covered by 1,587 multi-employer plans
- During 2004, the PBGC made benefit payments totaling more than \$3.0 billion to approximately 518,000 people

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Deloitte & Touche LLP, Reorganization Services



Carl Lane
Principal
Reorganization Services
Deloitte & Touche LLP

- Deloitte & Touche's Reorganization Services Group is a nationally recognized practice consisting of approximately 100 professionals in 10 major cities across the U.S. who specialize in providing in-depth business and financial advisory services to companies, their creditors, their equity holders, the legal community, bank syndicates and other interested parties in both in-court and out-of-court reorganizations
- Deloitte's Reorganization Services practitioners specialize in providing assistance in troubled situations
 - We are adept at handling situations caused by a lack of financial resources, a depressed operating environment, organizational turmoil or substantial outside pressure
 - In addition, we possess years of experience in transaction-based, complex restructurings which enable us to provide the most meaningful answers for a specific company, its lenders and other stakeholders

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O'Keefe & Associates

Patrick O'Keefe
Principal
O'Keefe & Associates

- In 2001, O'Keefe & Associates was established to provide transactional financial services to clients experiencing non recurring or “life” events. These events would be significant to the Company’s growth or survival. The concept was to allow ownership a management resource not typically found within the organization structure, but was required to address an immediate concern to ownership. We are creative, highly specialized, service oriented, experienced and motivated to apply our financial skills to achieve the best results possible for our clients.
- Regardless of whether we are representing a client restructuring their finances and operations or preparing for litigation, we uncover the truth, frame it and deliver complex information and strategies in a framework that is commonly understood and solution oriented.
- The firm provides a variety of services including:
 - Turnaround consulting
 - Insolvency & Bankruptcy
 - Corporate Finance
 - Business Valuation
 - Litigation Support
 - Forensic Accounting

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Oxford Automotive

David Treadwell
Director and former CEO
Oxford Automotive, Inc.

- Oxford Automotive is a Tier I manufacturer of automotive components for sports utility vehicles, light trucks, and minivans. Components manufactured include parking brakes, control arms, leaf springs, suspension systems, and structural supports. Products are sold to automobile manufacturers.
- Oxford emerged from Chapter 11 effective March 24, 2005 with its core European operations

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Agenda

- As pension plans continue to be substantially underfunded, there is substantial risk for stakeholders
- Under current regulation pension plans can potentially serve as another source of income
- The pension plan's consideration as a creditor and the effective treatment
- How much more can the PBGC support?
- The PBGC potentially can be the largest shareholder per a company's emergence from Chapter 11.

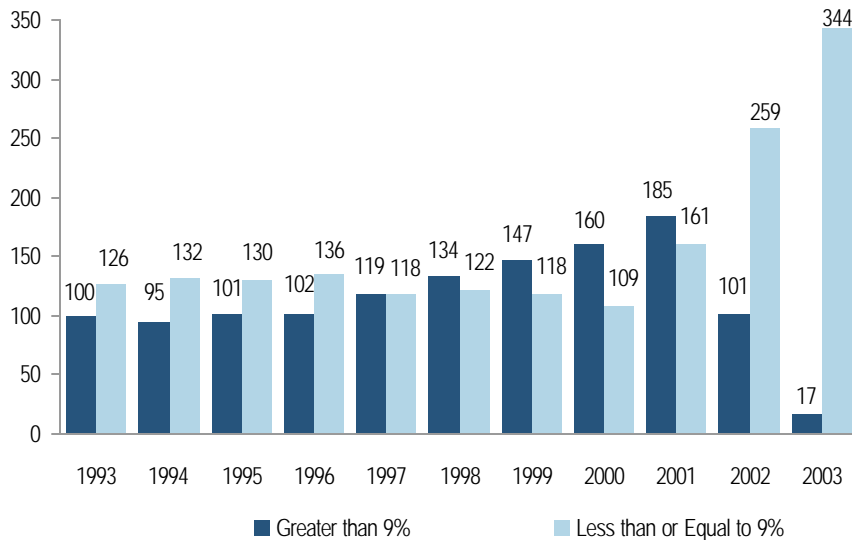
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Calculating Plan Value

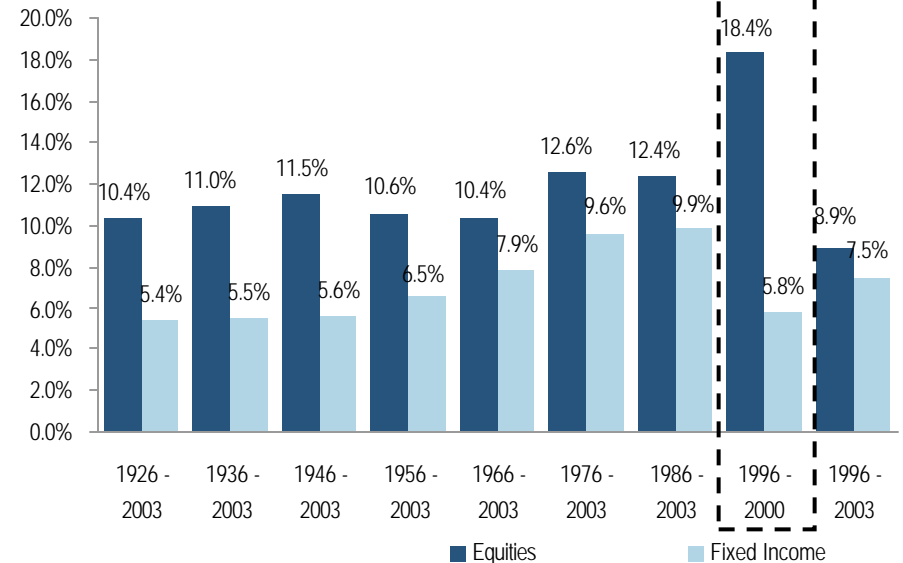
- Two key assumptions are utilized to calculate the present value of plan liabilities
 - Discount rate
 - Mortality assumptions

- Funding levels are ultimately derived by asset mix and the assumed returns

S&P 500 Number of Companies Reporting Expected Rates of Return Above or Below 9% ⁽¹⁾



U.S. Equity and Fixed Income Compounded Annual Rates of Return ⁽²⁾



(1) Wall Street research.

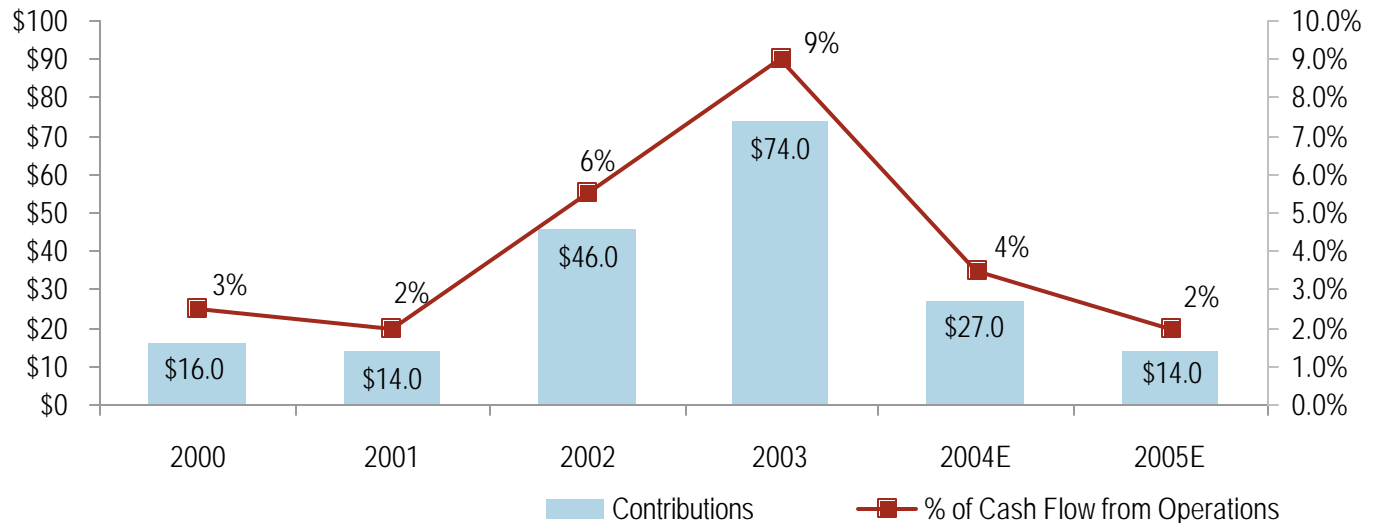
(2) Growth rate calculations are based on geometric mean. Wall Street research and Ibbotson.

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Cash Flow Contributions

- Companies are now required to disclose the amount of pension contributions for the next fiscal year
- Funding contributions increased in 2002 and 2003 due to underperforming markets and a substantial number of underfunded pension plans

Pension Contributions for Companies within the S&P 500 2000 – 2005E ⁽¹⁾



(1) Wall Street research. 2004E and 2005E percentages are based on trailing five-year average cash flow from operations.

(2) Pension: In 2004, Ford made over \$2.3 billion of cash contributions to its funded pension plans. During 2005, Ford expects to contribute \$2.8 billion to its worldwide pension plans, including about \$300 million of benefit payments paid directly by the Company in respect of unfunded plans. Based on current assumptions and regulations, Ford does not expect to have a legal requirement to fund its major U.S. pension plans in 2005. Ford also does not expect to be required to pay any variable-rate premiums for its major plans to the Pension Benefit Guaranty Corporation in 2005. Health Care and Life Insurance: In 2004, Ford contributed \$2.8 billion to its previously established VEBA for U.S. hourly retiree health care and life insurance benefits. During 2005, Ford expects to contribute \$200 million to the VEBA.

(3) In 2005, GM does not have any contributions due for its U.S. hourly and salaried pension plans. It also does not anticipate making any discretionary contributions to its U.S. hourly and salaried pension plans. GM expects to contribute or pay benefits of approximately \$117 million to its other U.S. pension plans and \$464 million to its primary non-U.S. pension plans during 2005. GM does not anticipate making any contributions to the VEBA trusts or 401(h) accounts for OPEB funding during 2005.

(4) GE principal pension plans had a surplus of \$6.7 billion at December 31, 2004. GE will not make any contributions to the GE Pension Plan in 2005. To the best of its ability to forecast the next five years, GE does not anticipate making contributions to that plan so long as expected investment returns are achieved. At December 31, 2004, the fair value of assets for our affiliate and other pension plans was \$2.6 billion less than their respective projected benefit obligations. In 2004, GE contributed \$0.4 billion to such plans and expects to contribute \$0.3 billion to these plans in 2005.

Notable 2005E Contributions:

Ford - \$3,000 million ⁽²⁾

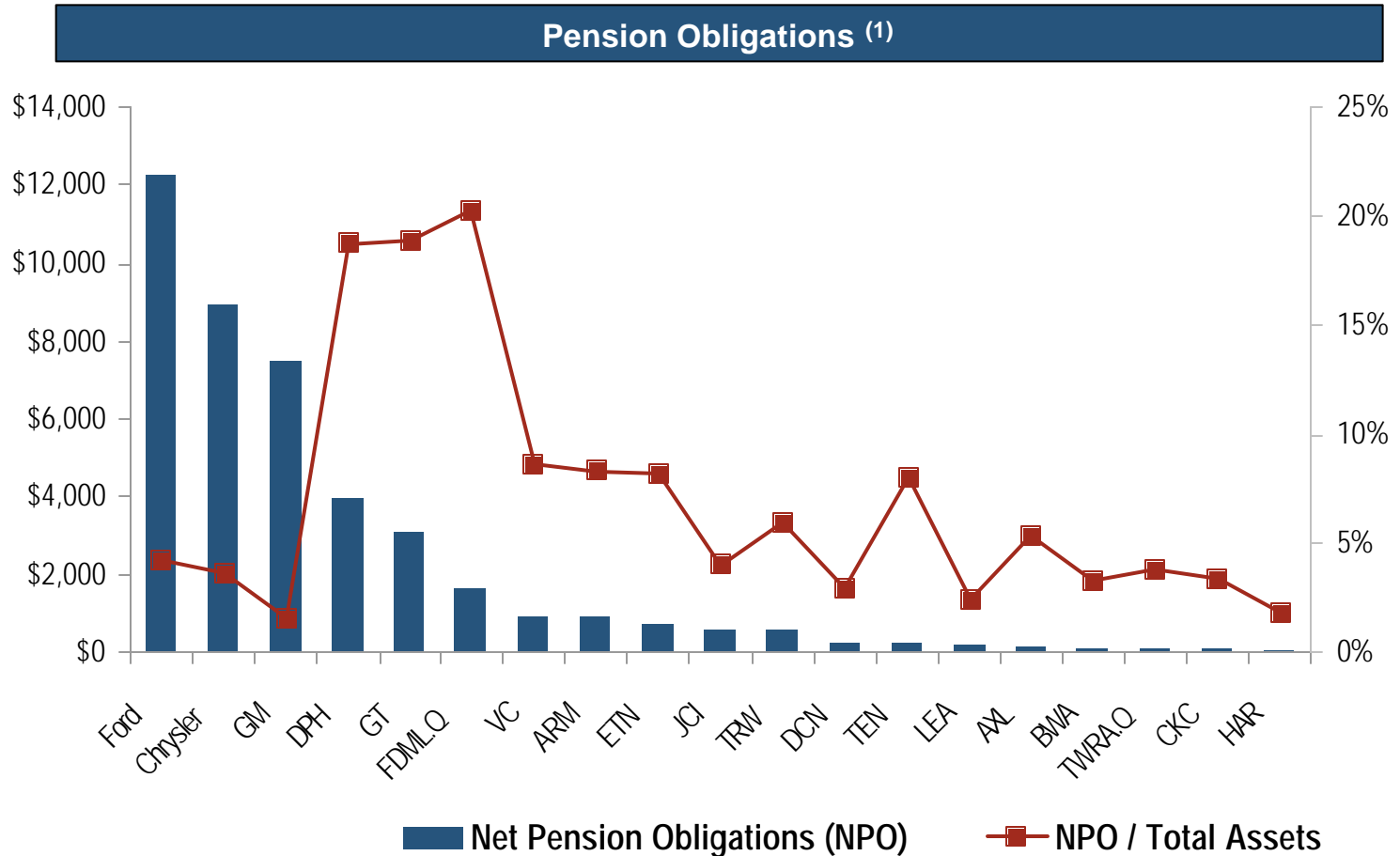
GM - \$581 million ⁽³⁾

GE - \$300 million ⁽⁴⁾

IBM - \$1,700 million

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Big Three versus Supplier Pension Obligations
(\$Millions)



Source: SEC filings for most recent fiscal year ended (includes non-U.S. plans). Daimler-Chrysler converted at year-end exchange rates.

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S&P 500 Pension Funding Summary

- The funding levels vary across the major industry sectors with companies in labor intensive sectors most likely to have pension plans
- Significant pension underfunding exists in the automotive and airline industries

S&P 500 Industry	Funded Status / Market Capitalization	PBO / Market Capitalization	Contributions / Cash Flow from Operations	Real Pension Cost Adjustment / Operating Income	Off-Balance Sheet Pension Adj. / Reported Equity	Z-Score
Auto Components	(37.8%)	112.6%	37.7%	6.6%	(20.5%)	(2.26)
Automobiles	(34.6%)	264.0%	2.6%	(3.0%)	(84.2%)	(2.09)
Airlines	(42.7%)	92.7%	21.2%	(8.1%)	(11.9%)	(1.70)
Aerospace	(10.2%)	65.4%	7.6%	(18.6%)	(21.6%)	(1.10)
Construction & Engineering	(1.3%)	17.9%	17.2%	(4.1%)	(12.4%)	(0.57)
Chemicals	(5.5%)	27.8%	10.3%	(8.1%)	(6.7%)	(0.43)
Metals & Mining	(4.3%)	28.3%	7.4%	(7.8%)	(2.6%)	(0.42)
Containers & Packaging	(8.1%)	36.0%	8.1%	(8.3%)	(7.1%)	(0.41)
Machinery	(4.9%)	24.6%	13.4%	(5.2%)	(7.8%)	(0.39)
Computers & Peripherals	(1.7%)	21.1%	1.9%	(13.0%)	(14.7%)	(0.38)

Source: Wall Street research.

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Pension Plan Termination

When a plan is terminated in chapter 11, the liabilities that accrued pre-bankruptcy are unsecured claims

- Employers can terminate a pension plan through a standard termination or a distress termination
 - **Standard termination** - either purchase an annuity from an insurance company or, if the plan allows, issue one lump-sum payment that covers the entire benefit
 - **Distress termination** - demonstrate to a bankruptcy court or to the PBGC that the standards for rejecting or modifying the plan are met

- If the PBGC takes over a plan, the maximum benefits depend on the year terminated and the participants age
 - For pensions ending in 2005, the maximum guaranteed amount is \$3,801.14/month (\$45,613.68 per year) ⁽¹⁾

(1) This guarantee amount is lower if you begin receiving payments from PBGC before age 65 or if your pension includes benefits for a survivor or other beneficiary. The guarantee amount may be higher if you retire after age 65 or if you are over age 65 and receiving benefits when the plan ends.

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Chapter 11 Pension Considerations

- A plan can survive a sponsor's bankruptcy
 - Contributions may not be necessary during case
 - Interim legislation enacted April 12, 2004 provides some funding relief for single employer plans through establishment of a funding interest rate tied to the corporate bond rate
- Termination of a defined benefit plan may be accomplished voluntarily by the sponsor or involuntarily by the PBGC
- Two of the criteria for a "distress termination" are specifically bankruptcy related
 - The Debtor is liquidating in bankruptcy, either in Chapter 7 or in a "liquidating 11"
 - The company is reorganizing and the bankruptcy court (or such other appropriate court) determines that, unless the plan is terminated, the Debtor will be unable to pay all its debts pursuant to a plan of reorganization and will be unable to continue in business outside the Chapter 11 reorganization process, and approves the termination

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PBGC Considerations During Reorganization

- When pension liabilities are large, the PBGC will typically be actively involved
- The PBGC takes an institutional approach to disputes (i.e., is very sensitive to the precedents it may set, both in litigation and in settlements)
- The PBGC has broad discretion to terminate an underfunded pension plan involuntarily
- The PBGC's claim for termination liability represents the present value of a stream of payments made over time, often many years – this liability is often large since the PBGC sets the present value calculation discount rate very low
- If a sponsor adopts replacement plans, PBGC may resist a termination as an improper attempt to transfer pension liability to the agency, and may then restore (reinstate) a terminated plan to the plan sponsor, whether or not the sponsor is in bankruptcy
- The PBGC can object to plan of reorganization and may contend that termination claims are administrative or entitled to lien status

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US Airways Case Study

The decision represents significant precedent that ERISA regulations govern the determination of unfunded pension liabilities for companies in Chapter 11, at least for matters in the 4th Circuit

The decision will be a key determinant in where not to file for Chapter 11 by companies with underfunded pension plans

- In connection with US Airways 1st Chapter 11 filing, US Airways terminated its pilots' pension plan under a "distressed termination"
- The PBGC asserted a claim of \$2.2 billion for the unfunded liabilities based on their actuarial calculation of the present value of plan liabilities of \$3.4 million and \$1.2 billion in plan assets
- US Airways objected to the claim and calculated the unfunded liability at \$900 million based on their actuarial estimate of the present value of plan liabilities of \$2.1 billion and the same plan assets
- The difference in one assumption, the discount rate used to calculate the present value of plan liabilities, drove the variation in the unfunded liability estimates
 - The PBGC assumed a discount rate, based on the price of purchasing annuities, of 5.1% for the first 20 years and 5.25% thereafter
 - US Airways assumed a "prudent investor rate" of 8%
- The Bankruptcy Court ruled in favor of the PBGC, effectively increasing the PBGC's portion of the distribution of new stock to the unsecured creditors

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Dealing with Underfunded Plans

- Obtain minimum funding obligation waiver
- Freeze plan to new participants and additional accruals
- Negotiate with parties-in-interest for deferral/reduction of obligations
- Convert to a cash-balance plan
- Change mix of plan assets to increase return
- Make non-cash contributions to plan
- Merge plan with overfunded plan
- Terminate plan via a distressed termination or negotiate involuntary termination