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Ford Offers Retirees A Bag Of Cash To Go Away

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Ford Motor said Friday it will offer 90,000 of its retired engineers and office workers the option to accept a lump sum payment now and to forgo their regular monthly pension checks for the rest of their lives.

The voluntary pension buyout for U.S. salaried retirees and former employees is an effort by Ford to improve its balance sheet by reducing its massive $74 billion worldwide pension obligation. The company called it the largest pension buyout offer in history.

"This is a really significant step forward for us," said Bob Shanks, Ford's new chief financial officer, during a conference call with analysts and reporters to review its $1.4 billion first-quarter profit. "It's really important that we improve the risk profile of the company." Ford has been making periodic cash contributions to its pension plans to address the gap between its future obligations and the value of plan assets, and it has adjusted its investment strategy to reduce volatility. Still, its worldwide pension plans were underfunded by $15.4 billion at the end of 2011. The buyout program is a much different tactic because it will wipe a portion of Ford's obligations off its books completely.

Ford said its U.S. pension obligation is about $49 billion, and the offer to salaried retirees represents about one-third of that obligation. The remainder is owed to retired UAW workers.

Ford said the size of the buyouts would vary, depending on actuarial data for each individual, and it could not predict how many of the 90,000 people who are eligible would accept. If a retiree elects to receive the lump sum payment, the company's pension obligation to that person will be settled. Payouts will start later this year and the process should be completed sometime next year. The offer is separate from a previously announced pension buyout option for current salaried workers who have not yet retired.

While Ford said it would likely take some non-cash charges against earnings for the program, the buyouts would have a minimal impact on Ford's operating income. The payments will be drawn from the pension assets, and not from the company's $23 billion in cash reserves.

While the program undoubtedly relieves Ford of some of its long-term pension obligations and would strengthen its balance sheet, there could be some benefits to retirees as well — especially if they're worried their pension is at risk. Retirees at Delphi Automotive, General Motors' former parts unit, for example, saw their pensions reduced by the Pension Benefit Guaranty Corporation after the company went bankrupt in 2005.

"By taking advantage of the pension lump sum payment, Ford retirees can potentially reduce many pension benefit risks including longevity risk, tax risk, and mortality risk, said David Kudla, chief executive of Mainstay Capital Management, an advisor to many Ford retirees. "Most importantly, it will completely eliminate PBGC risk – the risk that pension payouts are someday reduced by the Pension Benefit Guaranty Corporation, as Delphi retirees suffered."