Worker Capitalism Triumphs

Originally published in Muhlenkamp Memorandum *Issue 2, October 1987, this essay points out that through pension plans, American workers own a major portion of the business assets of the United States.*

As reflected in literature and the popular media from Dickens and Marx to Studs Terkel and Jesse Jackson, people have always viewed themselves as workers. As workers, they think of themselves as being in direct competition with owners and managers for a share of the wealth created by business enterprise. They see the return for their efforts in the form of a weekly or semimonthly paycheck and often conclude that their pay would be greater if only the owners took less. People naturally think in terms of net "take-home" pay, money that is then spent on the day-to-day necessities and luxuries of life. Yet take-home pay is only a part of the benefits received for work. Other items, whether deducted from gross pay, such as taxes, or those not appearing on the pay stub at all, such as medical insurance or pension benefits, are much less tangible and are often taken for granted or ignored by the worker. Yet the least tangible part of the paycheck, the pension benefit, has resulted in American workers owning a major portion of the business assets of the United States. The growth in pension and retirement assets has been so great that Peter Drucker calls wage earners "the only true capitalists in developed countries today."

Workers Are the Owners

Today the workers are the owners; they just don't know it yet. According to *Pensions & Investments*, in late 1986 the 100 largest U.S. pension funds had assets exceeding $845 billion. Of these 100 funds, only 48 were company related. The aggregate market value of the 48 sponsoring companies was $583 billion. Thus, the 100 largest pension funds could easily own all of the shares of the 48 companies. Individually, the pension funds of the employees of 14 of these companies exceeded the total market value of their respective stocks. Thus, the employees of General Motors, through their pension plan, could buy all of the stock of their company. So could the employees of AT&T, USX, Alcoa, Lockheed Martin, Union Carbide, and Delta Air Lines.

Of the 100 largest pension plans not company related, most are plans for public employees. The California Public Employees Retirement System exceeded $37 billion, an amount sufficient to buy all the stock of General Motors and Ford. Similarly, the Pennsylvania State Employees Retirement Plan could have bought out USX. The Pennsylvania School Employees Retirement Plan, at over $10 billion, could have bought out USX plus Alcoa.

The point is that workers already own a huge chunk of America's capital assets, yet are largely unaware of it. A person retiring from USX with a $20,000 per-year pension and a life expectancy of 15 to 20 years thinks he's poor, but if he receives the same amount in a lump sum, he thinks he's rich. Same data—different perceptions.

Though the workers seem unaware of their ownership status, managers are rapidly becoming more aware. Directors and managers see huge blocks of "their" stock in the hands of (potentially non-friendly) pension funds and mutual funds, so they try to maintain their positions of power and influence with various "poison pills" and so-called shareholder rights plans. Managers sometimes literally buy off unfriendly holders through greenmail payments or share repurchase. Some do both. When General Motors paid $700 million in hush money to H. Ross Perot because Perot refused to keep quiet about GM's loss of market share, the firm was besieged by its other larger shareholders, including the comptroller of the New York City Pension Funds. It seems these other shareholders were not happy with H. Ross being the only beneficiary of the firm's largesse, so they made noises about replacing Roger Smith as chairman. GM announced a share repurchase soon thereafter.

Other firms undermine the shareholder's say in management by creating separate classes of stock, one with the great majority of voting power, the other with very little. The trouble with this strategy is that the New York Stock Exchange has something called the "one-share, one-vote" rule, and firms opting for this strategy face delisting of their securities. Opposition to these and other corporate tactics is increasing as institutional shareholders come to recognize their collective power.

1995 Update

We wrote in 1987 that institutional shareholders and pension plans were beginning "to recognize their collective power." Much has been made of the push in recent years for a greater focus on shareholder values, frequently resulting in corporate cutbacks, including large layoffs. But the public is unaware that the major pension plans have been aggressive drivers of this trend. Specifically, in each of the past several years, CalPERS (California Public Employee Retirement System) has targeted a number of major companies, pushing for greater efficiencies and greater profitability. Its targets have included General Motors, Eastman Kodak, Westinghouse, and so on, and its pressure has resulted in the firings of chief executives and whole tiers of corporate managers— in the name of, and for the benefit of, workers' pensions.

2007 Update

In recent years, many companies have closed their defined benefit plans and shifted to defined contribution plans. We have seen a number of articles discussing the ramifications of such shifts, but none giving the historic causes.

A defined benefit plan is just what it says. The plan defines a benefit, say $200 a month, which is promised to be paid to a retiree beginning on some date.

The plan can be specific to a company, such as General Motors (GM), or a union bargaining group, such as the Pennsylvania Teachers or the Central States Teamsters. Administration of the plan is the responsibility of a Board of Trustees whose job it is to make sure that the plan and its assets are run for the benefit of the plan members, who are the workers and the retirees. The trustees then hire actuaries to aid in the administration of the plan. The actuaries make assumptions and calculations about life expectancies, inflation rates, wage rates, etc. in an attempt to make sure that the $200 per month will be available when needed. The fact that the future liability went from $0 to $200/month on the day the contract was signed adds an additional complication. Most firms are not able to come up with the funds overnight, so the law allows them to fund these obligations over a period of time, often 20-40 years.

Okay. So it's 1965, your plan has been in place for 20 years. Most of the actuarial assumptions have been reasonably close. Life expectancy has increased, but the other assumptions have been close, including wage levels and returns on plan assets. Over the 20 year period, the company made annual contributions and have brought the plan to a "fully funded" level.

Now, fast forward to 1980. In the prior 15 years, because of the increase in interest rates and the decline in price/earning ratios, the return on the plan assets have not met expectations, forcing up the company contributions. Meanwhile, the company has lost market share and has had to scale back its work force just as a lot of people are about to retire. While this may sound good, it means the number of retirees is climbing rapidly while the number of active workers is declining. But the real problem is that the retirees are pointing out that (as a result of inflation) $200 per month doesn't buy what it did 15 years ago. They're demanding $400 per month in the upcoming wage contract. As a matter of negotiation (and as a matter of equity), the retiree benefit is doubled and the plan becomes under-funded by one-half overnight. Note that this occurred despite the best intentions of all the people involved.

The reason companies are moving to defined contribution plans is that no management can say with assurance that history won't repeat itself. They are unwilling to risk corporate bankruptcy as a result of basic assumptions that didn't hold up in the past and may not hold up in the future. To ask IBM or Microsoft to support a defined benefit plan today is to ask them to risk a future as problematic as that of GM and Ford today. Any management that does so is irresponsible. Figure 5.2 lists some summary data from the largest plans.

Figure 5.2 Summary Data from Largest Pension Plans

	Assets in $ Billions	**Assets in $ Billions**	**Assets in $ Billions**
Pension Plans	**1986**	**2002**	**2006**
Top 1000	N/A	4,700	6,487
Top 200	N/A	3,560	4,911
Top 100	845	2,900	4,062
CalPERS	37	143	218
Market Value of Top 100 Companies	583	2,192	4,028
Number of public companies within Top 100 Plans	48	41	41

The following data is reprinted with permission from *Pensions & Investments*, January 22, 2007 (Crain Communications, Inc.). Figure 5.3 lists the top 200 pension funds and their sponsors in the United States, along with the assets (in millions) in the fund. We have included a column labeled Market Value that shows the market value of the respective corporations as of September 30, 2006. When you look at the accompanying table, pay particular attention to the company market values with the asterisks. These are the companies whose (funded) pension plans are greater than the market values of the companies themselves. Note that most of the airlines have recently declared bankruptcy and that the auto companies are flirting with similar problems.

Figure 5.3 Top 200 Pension Funds/Sponsors and Market Value

Ranked by Total Assets (in Millions as of 9/30/06)

Rank	Sponsor	Pension Assets	Market Value as of 9/30/06	
1.	California Public Employees	218,214		
2.	Federal Retirement Thrift	188,086		
3.	California State Teachers	149,008		
4.	New York State Common	144,289		
5.	Florida State Board	124,450		
6.	General Motors	118,992	18,812	*
7.	New York City Retirement	114,598		
8.	Texas Teachers	100,717		
9.	New York State Teachers	94,347		
10.	Wisconsin Investment Board	80,853		
11.	IBM	79,567	124,699	
12.	General Electric	76,039	364,415	
13.	New Jersey	75,544		
14.	Ohio Public Employees	73,572		
15.	Boeing	72,848	62,679	*

16.	AT&T	71,556	126,468	
17.	North Carolina	70,016		
18.	Ohio State Teachers	67,965		
19.	Verizon	62,639	107,630	
20.	Washington State Board	60,045		
21.	Michigan Retirement	59,988		
22.	Oregon Public Employees	58,549		
23.	Pennsylvania School Employees	58,490		
24.	Ford Motor	57,282	15,217	*
25.	University of California	54,433		
26.	Virginia Retirement	51,340		
27.	Georgia Teachers	48,675		
28.	Minnesota State Board	48,214		
29.	Lucent Technologies	44,825	10,488	*
30.	Lockheed Martin	44,721	36,478	*
31.	Massachusetts PRIM	43,535		
32.	Colorado Employees	37,868		
33.	Illinois Teachers	37,361		
34.	Los Angeles County Employees.	35,877		
35.	Maryland State Retirement	35,430		
36.	United Nations Joint Staff	34,419		
37.	Northrop Grumman	33,434	23,451	*
38.	Pennsylvania Employees	31,978		
39.	Tennessee Consolidated	30,699		
40.	Teamsters, Western Conf.	30,158		
41.	National Railroad	29,383		
42.	Alabama Retirement	29,103		
43.	United Technologies	29,032	64,074	
44.	DaimlerChrysler	28,584	51,074	

45.	DuPont	27,515	39,490	
46.	South Carolina Retirement	27,129		
47.	Exxon Mobil	26,721	398,907	
48.	Missouri Public Schools	26,229		
49.	Bank of America	25,867	242,451	
50.	BellSouth	24,972	77,625	
51.	Arizona State Retirement	24,863		
52.	Texas Employees	23,890		
53.	Raytheon	23,563	21,543	*
54.	Connecticut Retirement	23,528		
55.	Citigroup	23,494	245,566	
56.	Utah State Retirement	22,705		
57.	Altria	22,045	160,254	
58.	JPMorgan Chase	21,921	163,018	
59.	United Parcel Service	21,395	77,768	
60.	Illinois Municipal	21,143		
61.	Honeywell	21,080	33,495	
62.	Iowa Public Employees	21,027		
63.	Mississippi Employees	20,428		
64.	Nevada Public Employees	20,334		
65.	Teamsters, Central States	19,652		
66.	Chevron	18,983	142,561	
67.	American Airlines	18,641	4,929	*
68.	FedEx	18,333	33,325	
69.	Shell Oil	17,010	208,978	
70.	Dow Chemical	16,920	37,395	
71.	Procter & Gamble	16,778	196,792	
72.	Alaska Retirement	16,776		
73.	State Farm	16,746		

74.	BP America	16,600	216,907	
75.	San Francisco City & County	16,359		
76.	3M	16,155	56,056	
77.	Wells Fargo	15,883	121,826	
78.	Hewlett-Packard	15,700	100,492	
79.	Prudential	15,562	37,134	
80.	Kentucky Retirement	15,493		
81.	Georgia Employees	15,433		
82.	Kaiser	15,325		
83.	Illinois State Universities	15,106		
84.	United Methodist Church	15,096		
85.	Indiana Public Employees	15,054		
86.	Caterpillar	14,623	43,148	
87.	Texas County & District	14,524		
88.	Delphi	14,444	899	*
89.	Kentucky Teachers	14,431		
90.	Illinois State Board	14,252		
91.	Los Angeles Fire & Police	14,111		
92.	General Dynamics	13,951	28,912	
93.	Louisiana Teachers	13,938		
94.	Pfizer	13,636	206,786	
95.	Eastman Kodak	13,440	6,434	*
96.	Qwest	13,347	16,614	
97.	Texas Municipal Retirement	13,343		
98.	PG&E	13,291	14,497	
99.	Wachovia	13,269	88,694	
100.	National Electric	13,258		
101.	World Bank	13,122		
102.	Johnson & Johnson	12,862	189,951	

103.	Kansas Public Employees	12,703		
104.	Exelon	12,600	40,531	
105.	Alcoa	12,380	24,308	
106.	Deere	12,195	19,400	
107.	New Mexico Public Employees	12,029		
108.	Chicago Public School Teachers	11,649		
109.	International Paper	11,405	17,076	
110.	Merrill Lynch	11,218	69,340	
111.	Ohio Police & Fire	11,155		
112.	ConocoPhillips	10,400	98,094	
113.	MetLife	10,350	43,042	
114.	Consolidated Edison	10,330	11,836	
115.	Federal Reserve Employees	10,298		
116.	Ohio School Employees	10,277		
117.	Idaho Public Employees	10,267		
118.	Hawaii Employees	10,200		
119.	Southern Co.	10,191	25,579	
120.	Delta Air Lines	10,122	270	*
121.	Motorola	10,103	61,251	
122.	United States Steel	10,068	7,099	*
123.	Maine State Retirement	10,029		
124.	Los Angeles City Employees	9,945		
125.	Siemens	9,900	77,614	
126.	Northwest Airlines	9,831	60	*
127.	Koch Industries	9,660		
128.	Weyerhaeuser	9,555	15,278	
129.	Wal-Mart Stores	9,461	205,617	
130.	Arkansas Teachers	9,446		
131.	Sears Holdings	9,324	24,352	

132.	Eli Lilly	9,187	64,433	
133.	Operating Eng. International	9,116		
134.	Abbott Laboratories	8,905	74,190	
135.	1199 SEIU National	8,895		
136.	Episcopal Church	8,875		
137.	J.C. Penney	8,851	15,334	
138.	New York State Def. Comp.	8,788		
139.	Morgan Stanley	8,781	78,157	
140.	Aetna	8,766	21,662	
141.	Xerox	8,722	14,415	
142.	National Rural Electric	8,659		
143.	PepsiCo	8,657	107,593	
144.	Merck	8,592	91,180	
145.	Southern Baptist Convention	8,590		
146.	Tennessee Valley Authority	8,535		
147.	New Mexico Educational	8,468		
148.	Oklahoma Teachers	8,408		
149.	SUPERVALU	8,332	6,275	*
150.	Intel	8,303	118,648	
151.	Boilermaker-Blacksmith	8,221		
152.	Allstate	8,155	39,489	
153.	Nebraska Investment Council	8,138		
154.	Indiana Teachers	8,073		
155.	Duke Energy	8,068	37,841	
156.	Louisiana State Employees	8,044		
157.	I.A.M. National	8,001		
158.	Time Warner	7,854	74,141	
159.	GlaxoSmithKline	7,748	154,109	
160.	Rhode Island Employees	7,694		

161.	San Diego County	7,612		
162.	Bristol-Myers Squibb	7,601	49,006	
163.	Electronic Data Systems	7,596	12,692	
164.	New York City Def. Comp.	7,570		
165.	Montana Board of Invest.	7,516		
166.	CBS	7,421	21,994	
167.	Unisys	7,416	1,946	*
168.	Presbyterian Church	7,290		
169.	Dominion Resources	7,237	26,989	
170.	Missouri State Employees	7,150		
171.	Cook County Employees	7,100		
172.	ITT	7,081	9,468	
173.	American Electric	6,968		
174.	Textron	6,964	11,048	
175.	South Dakota	6,950		
176.	Oklahoma Public Employees	6,898		
177.	Tyco International	6,871	56,392	
178.	Los Angeles Water & Power	6,856		
179.	FirstEnergy	6,820	18,425	
180.	Wyeth	6,743	68,413	
181.	Electrical Ind., Joint Board	6,716		
182.	UMWA Health & Retirement	6,707		
183.	Target	6,697	47,443	
184.	West Virginia Investment	6,596		
185.	Delaware Public Employees	6,527		
186.	Ohio Deferred Comp.	6,493		
187.	Southern California Edison	6,485		
188.	Orange County	6,474		
189.	Reynolds American	6,458	18,315	

190.	Chicago Municipal Employees	6,438	
191.	Walt Disney	6,421	64,606
192.	California Savings Plus	6,295	
193.	Arizona Public Safety	6,272	
194.	Wyoming Retirement	6,174	
195.	American Express	6,060	68,129
196.	Federated Department Stores	6,047	23,487
197.	Hartford Financial	6,008	26,393
198.	Evangelical Lutheran Church	6,001	
199.	Sacramento County	5,997	
200.	UFCW Industry, Ill.	5,957	

*Denotes pension plan is greater than market value

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