$300 Million Scholarship for Study in China Search

The New York Times

April 19, 2013

Companies Substitute Tangibles, Like Cheese, for Investments

By MARY WILLIAMS WALSH and JULIA WERDIGIER

When is Cheddar more than cheese, or water more than wet?

When it's in a pension fund, of course.

As companies struggle to close the gaps between what they owe to their pension funds and what they think they can pay, they are in some cases turning to unusual assets that they hope will make up part of the difference.

For example, Dairy Crest, one of Britain's biggest producers of dairy products, said Friday that it would add £60 million, or $92 million, worth of Cheddar cheese to its pension fund. That is about 20,000 tons of cheese, or 40 percent of its current maturing cheese inventory, the company said. (It will be constantly replaced as it ages.)

Diageo, the maker of Johnnie Walker whisky, moved two million barrels of maturing whisky at its distilleries in Scotland to its pension fund in 2010.

In the United States, the Pension Benefit Guaranty Corporation, which takes over both the assets and the liabilities of failing pension plans, encounters all kinds of peculiar assets. It has taken possession of water rights in the Mojave Desert, diamonds, oil wells, a hog-slaughtering facility, a restaurant, a hyperbaric chamber, a brewery in Philadelphia, a lien on a terminal at Kennedy International Airport and a stake in a nuclear fuel-reconditioning partnership.

Moving physical assets into pension plans allows companies to avoid having to come up with the cash they would otherwise need to keep their plans flush.

In Dairy Crest's case, its pension deficit was £84 million as of Sept. 30, the last time the company reported the figure. The company also said that it had made a one-time immediate payment to the pension fund of £40 million, in addition to an annual payment of £20 million.

Hard-to-value assets could hold a certain appeal: a plan actuary could assert that diamonds, for example, will pay higher returns than bonds.

"The higher the assumed rate of return, the lower the requirement on the employer to fund the plan in full," said Andrew Frank Thompson, a finance professor at the University of Northern Iowa College of Business. "If I'm assuming a 20 percent annual return, I don't have to put as much in. So employers like the idea of investing in exotic types of things."

That could include trees. United States Steel, based in Pittsburgh, transferred about 170,000 acres of Alabama timberland to its workers' pension fund several years ago, to help plug a shortfall. The timberland sprawls over five counties near Birmingham and was estimated to be worth about $100 million at the time of the transfer. U.S. Steel acquired it in 1907, when it bought the Tennessee Coal, Iron and Railroad Company.

Large, in-kind pension contributions by companies must be vetted and approved by the Labor Department. It is not known whether the department would approve big batches of cheese, because no one in this country has tried it.

States are not bound by those rules, and Alabama has stocked its pension system with 11 golf courses, all within the state, along with an array of hotels and spas. The investments have sometimes drawn criticism for not returning as much as publicly traded investments, but the system's chief executive, David Bronner, says building resorts and golf courses also improves the standard of living in Alabama.

"If we didn't do it here, there would be no new buildings in Alabama, there would be no hotels in Alabama, there would be no spas in Alabama, there would be no golf courses in Alabama. You'd still be the Alabama of the '70s," he told state pension trustees at a board meeting last year.

Company pension plans in the United States are guaranteed by the federal government, and when a company goes bankrupt, the pension guaranty uses all the pension assets it acquires from bankrupt companies to help cover the cost of the benefits it pays retirees. Its officials obviously find it much easier to work with publicly traded stocks and bonds than with, say, water rights in a desert.

"The main issue remains as to how funds can be deployed to this activity when the P.B.G.C. is running a deficit of $23 billion," said Mr. Thompson, who has studied the pension insurance program's finances.

Mr. Thompson said assets like breweries and diamonds were ill suited to paying pensions because they were illiquid and hard to set a value to.

"From an actuarial standpoint, those assets would not be suitable," he said. "When you're reserving, you want assets that are marketable."