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Retirees Win Against Mining Industrialist

By Claire Oxford, J.D. Candidate 2018 | March 18, 2016

In a nearly unprecedented turn of events, the occupant of one of the largest single-family dwellings in the U.S., mining industrialist Ira Rennert, has settled with a group of retirees from one of his subsidiary companies and agreed to pay their pensions in full.

In 2011, Rennert's conglomerate, Renco, purchased R.G. Steel for $1.2 billion. At the time, Renco's pension was underfunded by almost $70 million. Shortly after the acquisition, Renco struck a deal with the private equity group Cerberus in a purported attempt to find more funding for R. G. Steel. The deal included Cerberus's purchase of a 24.5 percent equity stake in R. G. Steel – causing Renco's ownership to fall under the 80 percent cutoff to legally be considered the controlling group and therefore responsible for pension obligations. Though Renco executives claim they acted appropriately, the government believes the intention was to avoid being held accountable for the pension payments.

In 2012, R.G. Steel went bankrupt, and in November of that year, pension payments to its retirees halted.

Generally, when a company files for bankruptcy, the federal agency Pension Benefit Guaranty Corporation ("P.B.G.C") takes over the payments, however they are usually significantly lower than those promised by the original company. The P.B.G.C. guarantees only basic benefits, though it continues to pay retirees for the duration of their lives.

However, R.G. Steels parent company and Rennert accumulated wealth made the bankruptcy proceedings remarkably atypical. Special rules apply to bankruptcy proceedings when a mega-wealthy parent company is involved.

In this case, the wealth off Renco and Rennert is astonishing when compared to the deficit in the pension fund. As of 2015, Rennert's 62,000 square foot, 64-acre ocean-side home in the Hamptons was valued at $248 million, compared to the $70 million shortfall in R. G. Steel's pension. Blue Turtles, which Renco also controlled and is thus also liable for the pensions, legally owns the home, called Fair Field.

Finding that Renco had lied about its intentions in its partnership with Ceberus, the government sued Renco for fraud. Renco and the government ultimately settled, with Renco denying any wrongdoing. Renco agreed to pay the pensions of 1,350 retirees, and stated it was their most sensible option when faced with complex and lengthy litigation.

It is incredibly rare for already-cut pensions to be restored to their original value. The executive director of P.B.G.C. Tom Reeder calls this outcome "extraordinary." In fact, this instance is only the second time since P.B.G.C formed in 1974—42 years ago—that pensions have been so restored.

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Less rare is the controversy surrounding Fair Field. This is not the first time Fair Field has been scrutinized in bankruptcy proceedings. Ten years ago, another of Rennert's holdings, W.C.I. Steel, went bankrupt. At the time, P.B.G.C. stated it would seize Fair Field – then valued at $185 million – to make up for the, coincidentally, $187 million shortfall for the pensions in that case. The government withdrew when Renco agreed to pay W.C.I. Steel's retirees their pensions.

More troubling, some critics allege that Rennert used a different company, MagCorp, to finance the building of the mansion. For now, however, Rennert and his mega-mansion are safe – and the R.G. Steel retirees win an extraordinary victory.