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Retirees Ready To Rumble Over Corporate Pension Plans

By **PHYLLIS PLITCH**

OF DOW JONES NEWSWIRES

NEW YORK -- Armed with stock in their former companies, some retirees are widening their offensive in the corporate pension wars.

Charging that they're being shortchanged in their pension benefits, the retirees are ganging up on old employers - seeking to tie their pension-related grievances to executive pay packages.

Specifically, the increasingly activist pensioners have floated a set of shareholder proposals at several blue-chip companies, taking aim at their incentive-based compensation plans. At issue are "pension credits" generated by overfunded pension plans that flow to income.

International Business Machines Corp. (IBM), Verizon Communications Inc. (VZ), Qwest Communications International Inc. (Q) and General Electric Corp. (GE) have each been hit with versions of the non-binding resolutions, which recommend that pension gains not feed into performance-based compensation awards.

Because companies booking pension gains are following generally accepted accounting principles, the process isn't about to change anytime soon. But some retirees see the issue as a way to gain leverage in their fight to draw higher benefits, including more frequent cost-of-living increases.

Still, how many of the resolutions will eventually come to a vote remains a question. So far, two of the companies have received an okay from the Securities and Exchange Commission to exclude them from their proxies.

Increased attention to pension credits comes at a time when such gains

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are receiving greater scrutiny. Of late, however, much of the focus has been on the potential impact for investors if they were to suddenly evaporate.

In December, after Northrop Grumman Corp. (NOC) warned that its 2001 earnings might be affected by a drop in pension income, questions arose about what other bottom lines might meet a similar fate, if the market continued taking a beating.

Retirees are approaching the issue with a very different perspective, complaining that the setup produces a perverse result if pension plan contributions help line executives' pockets, while they forego cost-of-living increases.

"They're walking to the banks on the backs of retirees," said Donald Parry, a 67-year-old former IBM systems engineer, who retired over a decade ago.

The shareholder proposals are also just the latest reflection of frustration among retirees and employees over the way pension funds are being handled by corporate caretakers.

One of the more prickly issues to emerge in recent years is the conversion to cash-balance plans, which reduces benefits for longer-service workers.

IBM stoked employee anger when it announced in 1999 that it was switching to a cash-balance plan from a defined-benefits plan. Despite the company's more than doubling the number of employees eligible to choose between the two plans, an employee-led insurrection resulted in a shareholder resolution requesting that all employees be given a choice. The resolution won more than 28% of the vote in 2000 and is expected to once again appear on IBM's ballot this year.

IBM Lawyer Calls Proposal 'False And Misleading'

The gray shareholder activists may be ready to rumble at this year's annual meeting, but some corporate officials are successfully erecting legal hurdles to keep the resolutions out of their proxy materials.

For the second year in a row, the SEC staff backed GE's challenge, saying they wouldn't recommend enforcement action if the proposal, submitted by a former GE electrical assembler turned union official, was excluded from the proxy.

Similarly, the SEC has issued a so-called no-action letter to IBM, though the sponsors have asked for a commission review of the decision, which is still pending.

In all three cases, the SEC's decision was based on a proxy rule that

allows companies to exclude proposals related to "ordinary business."

An SEC challenge by Qwest raising questions about a number of the proponents' conclusions - including some related to the purported link between pension income and performance-based compensation plans - is also pending. But lawyers advising the retirees say the proposal stands a chance of passing muster with agency staff because it was drafted in such a way to avoid fatal flaws.

A Qwest spokesman provided no immediate comment about the shareholder proposal.

The IBM resolution, for instance, was apparently tripped up by an accompanying recommendation that called for "transparent financial reporting of profit from real company operations," which the SEC considered ordinary business.

Confirming only that the no-action letter was granted, IBM declined further comment. But in an 11-page letter to the SEC, Big Blue tore into the resolution, arguing that it was vague and indefinite as well as false and misleading - grounds for omission under the proxy rules.

IBM zoomed in on suggestions the company is manipulating its profits, among other things.

"By stating that IBM 'boosted its 1999 profit' ... the proponent is intimating, falsely, that IBM is acting in a manipulative manner," an IBM lawyer wrote, also noting that any losses from pension assets would also be expensed under the same rule. "IBM is not 'boosting' anything. IBM is complying with the terms of a well established financial accounting and reporting standard."

Shareholders of at least one company, it seems, will get to weigh in on the issue. Verizon, which declined to comment before shareholders received the company's proxy, has made no effort to omit the resolution, sponsors said.

Submitted by C. William Jones, president of the Association of BellTel Retirees, it requests that Verizon's board adopt a policy "that determines future awards of performance-based compensation for executive officers using a measure of earnings per share that does not include non-recurring accounting rule income, particularly 'pension credits' resulting from increases in the employee pension fund surplus."

A 62-year-old former managing director of corporate planning, Jones said he hasn't seen a cost-of-living increase since retiring from Verizon predecessor New York Telephone nearly a decade ago. Pension minimums were raised in recent years, and a lump-sum payment was made last year, he said.

A company official couldn't immediately be reached to confirm Jones' assessment.

Jones and fellow retirees started organizing in 1996 and are now 48,000 strong. But after realizing several years ago that it wasn't so easy to get management's attention at annual meetings, the group decided to become more "brazen" with the help of shareholder resolutions, including two he expects will be voted on again this year, concerning golden parachutes and board makeup.

Anticipating three retiree-sponsored proposals on the proxy card, Jones envisions a corporate takeover of sorts at Verizon's annual meeting.

"We will be taking over the entire meeting this year," Jones said. "We'll let the chairman make opening remarks and we'll take over from there."

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