Don't let pension plan changes catch you by surprise

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MOST people assume that when they retire, they'll get a monthly pension that, along with Social Security and other investments, will allow them to live out their golden years in comfort.

More than most don't even try to figure out what they'll have for retirement until they celebrate their 55th or even 60th birthday.

But inattention to something so vitally important is a mistake, especially now that the Bush administration announced this week it is planning to make it easier for companies to alter those old pension plans to "cash-balance" plans.

Typical cash-balance plans set aside 3 to 5 percent of an employee's salary and pay a rate of interest equal to a 30-year Treasury bill or one-year note.

The money in the account grows like a 401(k) plan, and once the worker has been at the company for five years, the money is the employee's.

Most traditional plans, in contrast, are administered by the company and upon retirement pay the worker a fixed amount each month for the rest of his life.

But perhaps the most significant difference between a traditional pension plan and a cash-balance plan is that the value of a traditional plan doesn't really begin to swell until the worker hits 50.

So if you work for a company that's converting from an old pension to this new-style pension and you are about 45, you'll be losing a lot of potential retirement money.

Confused yet? Just keep reminding yourself that it could be the difference between life on a cruise ship or life in a trailer park.

During the last decade, cash-balance plans became hot as companies, eager to cut pension costs as their work forces aged, switched over.

According to an estimate from the Labor Department's inspector general, between 300 and 700 companies covering more than 8 million employees have converted to cash-balance plans.
And many times, employees don't even realize what they'll lose.

Lynda French had to hire an actuary to find out how she'd fare when IBM converted to a cash-balance plan three years ago and discovered she'd lose 45 percent of her pension if she stayed with IBM. French, who was a software analyst, was just shy of 55.

It's too late in life -- especially now with the problems of 401(k) accounts -- to recover financially, said French, who is now the Webmaster of cashpensions.org, based in Austin.

French was only one of many angry IBM employees who protested the conversion.

When U.S. Rep. Bernie Sanders, I-Vt., held a town meeting to discuss employees' concerns about the new plan, nearly 1,000 IBM workers showed up.

A few months after the workers began complaining and Sanders got involved, IBM relaxed its rules and allowed an additional 35,000 workers 40 and older to choose the option to stay on the previous defined-benefit pension plan.

In the midst of the controversy, the Internal Revenue Service stopped certifying cash-balance plans as qualified retirement plans.

But the Bush administration's proposal, which eases the age discrimination issue, has rekindled interest in the plans.

Unfortunately, our eyes glaze over when we hear the words "defined-benefit pension plan."

They're complicated -- benefits are determined by a mathematical formula that aren't laid out in a neat quarterly statement.

And lots of employees don't even realize they're eligible for handsome retirement checks because companies haven't done a good job of explaining the benefit.

My own husband, who qualified for membership in AARP during the last century and should be thinking about retirement issues, was even surprised when I mentioned his pension.

"I have a pension?" he asked.

Luckily, he has a wife whose idea of a good time is calculating how much we need for retirement. But I'm afraid that the spouse's attitude is typical.

In 1983, 175,000 companies had traditional pension plans, according to James Klein, president of American Benefits Council in Washington, D.C., an advocacy group for Fortune 500 companies. In 1997, the most recent data available, fewer than 60,000 companies had them.

Against that backdrop, the one bright light is that cash-balance plans exist at all, Klein said.

Employers are still committing themselves to providing a pension benefit -- and one that better fits today's more mobile work force. Over the years, the money will build up nicely.

It's absolutely true that in some situations, older workers have received less money, he said. But many
companies allow their older employees to choose between plans.

One that allows a choice is St. Luke's Episcopal Health System. All the employees who were vested in the old plan at the time of conversion get to choose the plan with the most money when they retire, said Irene Helsinger, senior vice president and chief human resource officer.

The new plan didn't save any money, but employees can now see the real value they're getting when they receive their cash-balance statements, she said.

So check out your pension carefully. And make friends with an actuary -- you never know when you'll need one.

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