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IBM faces shareholder dissent at meeting

By JULIE MORAN ALTERIO
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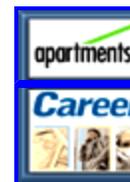
LOUISVILLE, Ky. — When Donald Parry enters the Kentucky International Convention Center in Louisville, for IBM Corp.'s annual meeting this morning, he will be facing hundreds of fellow shareholders.

He'll also be facing his onetime student, Samuel Palmisano. Parry helped train the new chief executive when he joined IBM in the 1970s. When Parry was writing his speech for today, he planned to congratulate Palmisano on his promotion, but ultimately decided against it. "Too nice," Parry said.

Parry has submitted a proposal that asks the board of directors to trim his former student's pay by omitting pension fund income when deciding executive compensation.

Like three other shareholder proposals, Parry's has been answered in the negative by IBM's board. Parry didn't expect Chairman Louis V. Gerstner Jr., Palmisano or the other directors to endorse his motion, but he hopes average shareholders will see the merit of basing executive bonuses on profits from business operations instead of pension gains.

When the 69-year-old one-time systems engineer and trainer retired in 1990 after 32 years at IBM, he didn't plan to become a thorn in his former employer's side. But seeing



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the spending power of his pension decline over a decade with no cost-of-living increases brought out the activist in the Jacksonville, Fla., resident. "I wrote letters to Gerstner way back when and got back a form letter from human resources. It was unsatisfying," Parry said.

His unrest found a cause shortly after IBM's 2000 annual meeting in Cleveland, where a record 28.2 percent of shareholders sided with a proposal to allow all employees a choice between a traditional pension and a cash-balance plan instituted for younger workers. After losing key backing from Institutional Shareholder Services, the same proposal garnered just 14.7 percent of the votes last year in Savannah, Ga.

This year, Institutional Shareholder Services recommended against Parry's proposal because the company said pension fund profit added just \$437 million to IBM's 2001 profit of \$7.7 billion. In a report to the large institutional investors who rely on the Rockville, Md., company to help decide their votes on shareholder proposals, ISS wrote: "We agree with the proponent's basic position that pension plan income should not be used to boost executive pay," but added, "ISS evaluates these proposals based on the magnitude of the contribution."

ISS relied on a June 2001 study by Credit Suisse First Boston, which noted that 30 percent of companies in the Standard & Poor's 500 reported pension fund income that added, on average, 12 percent to pretax earnings. ISS determined that about 7.68 percent of IBM's pre-tax earnings for 2001 were attributable to pension fund income.

Parry thinks ISS misread what the real impact is, but was heartened by the partial endorsement. "ISS came out against the thing, but in their write-up they said they're with me in spirit," Parry said.

Also on Parry's side is Norman Stein, a University of Alabama law professor and pension plan expert who has testified before Congress on the Enron debacle.

"I think it's pretty questionable in the first place whether

growth in the pension plan assets should be income for any purpose," Stein said.

Accounting rules require companies to show the effect of pension fund gains or losses on the bottom line. The rule was originally drafted to force companies to adequately fund their pension programs. But reporting pension gains with profits tends to give the impression that the fund belongs to the company, not the employees, Stein said.

Stein would particularly like to see companies omit pension income when calculating executive pay. "I think it's outrageous. They should be compensated for what they do. I don't think the growth in the value of the pension fund relates to what they do. It gives them perverse incentive to skimp on rank-and-file employee deferred compensation while building up their own," Stein said.

IBM's board disputes this inference. "IBM does not manipulate its pension fund plan to create profits for the company or to enrich its executives," reads the company rebuttal in this year's proxy statement.

IBM is also urging shareholders to vote down for the third time James Leas' proposal to allow all U.S. employees to choose between cash-balance and traditional pension plans. An IBM engineer from Burlington, Vt., Leas said he won't quit. "I've been an engineer for a long time. If there's a problem you stand up and fix it," Leas said.

The Armonk-based computer giant switched most of its workers to the cash-balance plans in July 1999. Employees who were at least 40 years old and had 10 years of service at that time could pick either plan.

Cash-balance plans tend to favor younger workers because companies contribute annually to a portable pension fund. In traditional plans, employees accrue most of their benefits in the last years of work.

But Leas contends that a switch to a cash-balance plan is actually age discrimination against younger employees. "IBM implemented and continues to pursue age discrimination. This is a real problem for IBM. They can

no longer say they are an equal opportunity employer," Leas said.

IBM has said it made the switch to stay competitive with other companies in the computer industry that pay higher salaries and dole out stock options instead of providing lavish benefits.

ISS has again sided with IBM on the pension issue. ISS senior analyst Edward Seaton said that there is no evidence of a continued employee outcry against the change. "We looked for employee morale issues, and the evidence wasn't there," Seaton said.

Leas said it's time for disgruntled employees to show their anger. "If we really want to be a factor in the decision-making, we can't just have the right arguments, we can't just have effective analysis, we can't just have the correct information, we have to have a visible organized campaign that people can see," he said.

Last year, dissident shareholders joined the Communication Workers of America to stage a rally after the annual meeting. The Rev. Jesse Jackson spoke in favor of efforts to unionize IBM, which began three years ago. Lee Conrad, a full-time organizer from Endicott, N.Y., said 4,000 of IBM's 150,000 U.S. workers have joined the union.

Outrage over the pension change has died down in the past three years, but the employee dissidents still have friends in high places. Vermont Rep. Bernard Sanders recently issued a statement in support of the ongoing fight to restore traditional pension benefits. The recent Enron scandal added fuel to Sanders' ire. "Additional investigation needs to take place regarding the possible accounting tricks IBM may have used to inflate their bottom line through increases in their pension fund surplus," Sanders wrote, adding, "This surplus increased as a direct result of IBM's cash balance conversion that slashed the pensions of thousands of its employees by as much as 50 percent."

Though Leas wants to emphasize he's not comparing IBM to Enron, he thinks the scandal over the energy trader's

bankruptcy has highlighted his cause.

"It's really placed what we've been talking about over the last two or three years into bold relief. Who would have expected accounting would become news?"

Annual meetings, likewise, rarely become news. Open only to shareholders, analysts and media, the gatherings provide an opportunity for executives to explain the previous year's financial performance and point to where a company is heading. Though Gerstner passed the CEO torch to Palmisano on March 1, Gerstner is still chairman and will run the meeting. Palmisano plans to participate, and it will be the first time for many of the expected 400 to 900 investors to hear him speak.

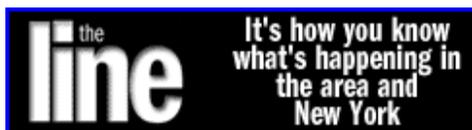
IBM picked Louisville this year as part of its strategy to vary the sites of annual meetings, spokeswoman Carol Makovich said. The company has about 1,000 workers in the state, primarily employed in Global Services.

Shareholders will also decide whether to limit the terms of directors. That proposal won 5.23 percent of investor votes last year. A fourth proposal would require IBM to get shareholder approval before adopting an anti-takeover strategy known as a "poison pill." IBM recommends against these proposals.

The results of the voting will be announced today. Parry said he's hoping for "one more than 50 percent." In the meantime, he's been rehearsing his speech. "I timed myself. It was four minutes, but I think I'm allowed five."

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