The Pension Chasm

Disparity Between CEOs, Workers Under Scrutiny

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As workers' pensions are eroding, employees, shareholders, unions and legislators are focusing new attention on the many ways top executives' retirement packages outshine those of their employees.

Financially ailing Delta Air Lines, for instance, has asked its workers to accept pay cuts and pension changes that many oppose. At the same time it has set aside $25.5 million in cash to create a special fund to guarantee executives' pensions if the airline should be forced to declare bankruptcy, according to recent corporate filings.

Sen. John McCain (R-Ariz.) last week called the Delta deal "insulting," coming at a time when the foremost recipient of Delta's largess, chief executive Leo F. Mullin, was approaching Washington seeking a multibillion-dollar federal aid package for the industry.

In recent years, Verizon Communications Inc.'s top executives boosted their pay and bonuses by tying them to the company's operating income, which was boosted in turn by high investment returns racked up by the company's $40 billion pension fund. When Verizon

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stopped doling out regular cost-of-living pension adjustments to retirees, 90,000 of them organized a vote last year on a shareholder proposal demanding that executives stop using the pension fund in their bonus computations. They proposed the measure again this year, and the company agreed last month to separate the executive compensation structure from the pension fund.

At Sears, Roebuck & Co., five top executives receive pension credit for two years of service for each year on the job, according to company filings, which boosts their pensions compared with those of rank-and-file workers. This proxy season, Sears is facing a union-backed proposal requiring the company to obtain shareholder approval of any future "extraordinary pension benefits for senior executives" -- including giving them credit for additional years they didn't work.

The gap between worker and executive retirement benefits is just part of the widening divergence in compensation between employees and their bosses. The average chief executive's pay was 42 times that of the average hourly worker in 1980, according to Business Week. By 2000, the CEO compensation was 1,531 times as much as the hourly worker's.

Pension issues have received prominence recently because of the flurry of shareholder proposals at upcoming annual meetings. Also, there were hearings and proposed legislation last week on plans to revive conversions of traditional worker pension plans to plans that can mean cuts in benefits, especially for older workers.

"The workers of America deserve better pension-law oversight and protection from their government," Janet Krueger, a 23-year International Business Machines Corp. employee from Rochester, Minn., testified at a pension hearing. She said her prospective pension eroded sharply after IBM converted it to a "cash balance" plan in 1999. In a later interview, she complained about the generous pension IBM had constructed for chief executive Louis V. Gerstner Jr. during the same period.

Company officials defend Gerstner's pay and pension package as a just reward for managing the company well. "The IBM board of directors determined Mr. Gerstner's retirement package based on a number of factors, including the company's overall performance during his tenure," spokesman Bill Hughes said in a statement. During Gerstner's nine-year tenure, he said, total stockholder return increased 938 percent.

The vocal debate also comes at a time when fewer American workers are covered by any kind of pension plan, and when those who are have seen their investments in supplemental plans, such as 401(k)s, hammered by the fall in stock prices since the Wall Street technology bubble burst three years ago.

The pension gap is "the utmost in hypocrisy," said Karen Friedman, director of policy strategies at the Pension Rights Center, a nonprofit pension-advocacy center that counsels workers who have seen their plans cut back or terminated. "Companies that are cutting back on pension benefits are giving huge benefit packages to CEOs at these companies. There's a basic element of unfairness."

Company spokesmen and compensation experts counter that rich pension plans have become a standard perk for top executives, and that companies that don't offer them won't attract the best people.

Jan Drummond, a spokeswoman for Sears, said accelerated pension vesting for top executives is a standard part of executive compensation packages among top-tier officers at very large companies. "Very skilled, talented people have a choice about where they reside in employment," Drummond said. "If we want to attract them, we need to have a competitive package."

Tom Donahue, a spokesman for Delta, said the $25.5 million special retirement fund for executives was approved by the company's board of directors in early 2002, in the wake of the Sept. 11, 2001, terrorist attacks, which wounded the airline industry.

"In an industry that was destabilized and uncertain, our officers were a rich target for executive recruiters," Donahue said. "It was considered a priority to maintain our executive management team."

Robert A. Varettoni, a spokesman for Verizon, said the company dropped its policy of linking executive pay to high pension-fund reserves after it became apparent there was widespread support for making the change. "We want to be responsive to our shareholders, and retirees are a significant shareholder base," he said.

Employment lawyer Lawrence Z. Lorber, who testified for the U.S. Chamber of Commerce at last week's pension conversion hearings, said the difference between executive and worker pension plans reflects "harsh business realities" caused by bad economic conditions, a weak stock market, an aging workforce and intense competition.

"It's an unfortunate confluence of the need to save money and the need to attract your savior," Lorber said.

Basic pensions, which are IRS-qualified and tax-deductible but limit annual benefits to $160,000, "are not enough to keep executives comfortable in the style to which they had become accustomed," said Carol Bowie, director of governance research at the Investor Responsibility Research Center. New and elaborate forms of enhanced executive pensions spread prolifically in the 1990s, she noted. "Once it starts, it spreads, because everybody wants one. It's sort of like having your cake and eating it too."

The pension gap is an issue labor organizers believe will resound with workers. A Web site being unveiled tomorrow by the AFL-CIO's investment office will highlight the discrepancies.

"The difference in treatment is unbelievable," said Richard L. Trumka, secretary-treasurer of the AFL-CIO, many of whose member unions are major institutional shareholders through their pension funds. Another tactic is pushing shareholder resolutions.

While inventive ways to embellish executive pension plans have proliferated, new studies show that workers' plans are at increasing risk.

A report last week by the Washington-based Employment Benefits Research Institute, a nonprofit group, found that the number of workers covered by any kind of retirement plan has fallen in the past two years, dropping from 60.4 percent of all adult, full-time wage and salaried workers -- an all-time high -- to 58 percent.

Today's worker pensions are often different from the traditional annuity, offering a fixed monthly income, that workers could depend on receiving at retirement -- called "defined benefit" plans. Now many pension plans are what are called defined-contribution plans, such as 401 (k)s. They require that workers invest their own money, often but not always with an employer match. The benefit thus depends on how well the employee invests the money.

These kinds of pensions are problematic for John Rother, policy director at AARP, who called the shift "reflective of a change in philosophy, of shifting risk to the individual."

He said that 401(k)s "sound good, because you have choice, but suddenly, years later, people wake up to see that none of these changes were as good as the old-style pensions would have been."

Citing hard times, some companies recently have scaled-back their matches to 401(k) accounts. Employers' matching contributions dropped from 3.3 percent of worker pay in 1999 to 2.5 percent in 2001, the most recent year for which numbers are available, said the Profit Sharing/401 (k) Council of America, a benefits-industry group. And in the past year, investment broker Charles Schwab Corp., Goodyear Tire & Rubber Co., El Paso Corp. and Ford Motor Co. have all announced they were dropping their matching contributions, at least for the near future.

"It's tied to the downturn in business and the pressure of health care costs," said Edward Ferrigno, council vice president. "Companies have done it as part of a strategy to avoid layoffs."

Avoiding layoffs was the specific reason Schwab cited in suspending its matching grants, said company spokesman Glen Mathison. He said the company intends to restore the match "as soon as possible."

Then there's the cash-balance debate, which unfolded at hearings before the Internal Revenue Service and the Treasury Department last week. Retirees from several companies testified against a proposal that would end a moratorium blocking companies from changing traditional pension plans.

Traditional plans often use a formula that bases a worker's benefit on his or her highest salary, or a final salary average. IBM and several other large companies created a storm of protest when they switched to a formula in which benefits didn't accrue near the end of a career but spread out over a longer period. Companies argued that this was fairer for today's workers, who change jobs more frequently. But some older workers said the shift meant a big cut in their benefits.

Patricia A. Friend, international president of the Association of Flight Attendants, told the hearing on cash-balance plans that some flight attendants would earn so little in retirement under some of the converted plans that they would qualify for federal housing assistance.

Staff writer Albert B. Crenshaw contributed to this report.

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