

TRACKING THE NUMBERS*Outside Audit***Forecast: More Pension Freezes**

Companies Shift Retirement Plans, Putting Most of Load on Workers; Good Time to Put Lid on Accounts

By **ELLEN E. SCHULTZ, CHARLES FORELLE and THEO FRANCIS**
 Staff Reporters of THE WALL STREET JOURNAL
January 12, 2006; Page C1

Look for more companies to cut back on pension benefits as an unusual alignment of financial conditions makes such moves more lucrative than usual.

Two trends have emerged in the broad shift away from traditional pensions, which provide workers set benefits based on their salary and years of service. Financially strapped companies such as airlines and auto makers are garnering much of the attention as they seek to ditch their badly underfunded pension liabilities and try to stay afloat.

Meanwhile, relatively healthy companies -- many with fully paid-up pension plans -- are seeking to shift to retirement programs that put more of the burden for savings and planning on employees. (How safe is your pension? [See Personal Journal.](#))

Last week, [International Business Machines Corp.](#) informed 117,000 workers in its U.S. pension plans that they will stop earning additional benefits after 2007, saving an estimated \$2.5 billion to \$3 billion over five years in the process, including the impact of other changes. [Verizon Communications Inc.](#) froze its pension for 50,500 managers last month, saving \$3 billion in the coming decade.

Effective Jan. 1, many workers at [Hewlett-Packard Co.](#) and [Sears Holdings Corp.](#) also stopped building benefits in their plans. The companies said they are enhancing their 401(k) plans, which typically involve employee contributions that may be matched all or in part by employers.

Current interest rates offer employers the possibility of a particularly big income boost if they freeze their pensions, effectively wiping out part of a debt owed to future retirees. While assets in a plan still will be paid out when workers retire or leave the company, benefits don't grow with additional years

[ADD TO PERSONALIZED HOME PAGE](#)
[EMAIL](#) [PRINT](#) [MOST POPULAR](#)
RECENT TRACKING THE NUMBERS

January 13

- [Churches Turn to Bonds to Raise Funds](#)

January 10

- [Intervice Retains Analysts' Favor](#)

January 9

- [Energy Play Draws Money and Ire](#)

[MORE](#)
SEARCH PAST ARTICLES

Search for the following word(s):

[Display all articles](#)

advertisement

on the job.

There is no legal barrier to freezing a pension unless it is prohibited by a union contract. Verizon, for example, unilaterally froze the pensions of its managers, but changes to pensions for its union employees are subject to negotiations.

"I wouldn't be surprised if many of the largest [companies] are in fact evaluating" pension freezes, said Vadim Zlotnikov, chief investment strategist for Sanford C. Bernstein & Co. Mr. Zlotnikov says the potential for locking in bigger accounting benefits is one of several reasons big pension sponsors might choose to freeze a pension now.

Under accounting rules, companies calculate how much they expect to pay out in pensions over the lives of their employees, including amounts workers haven't earned yet, and then reflect that amount as a liability on their books.

When a company freezes its pension -- halting the buildup of additional benefits for employees -- it is no longer obligated to make some of the payments it had planned. That allows the company to reduce the value of the liability it was carrying on its books, which generates accounting gains that are counted as income. Although this "income" isn't money that can be spent, it can affect the stock price and often management's pay incentives.

Benefits consultants, which earn fees in part by helping employers restructure pension plans, have begun telling clients that competitors are considering changes. Hewitt Associates LLC says that 29% of 152 companies it surveyed recently were considering closing some of their pensions to new employees, and 16% of 157 companies said they might freeze benefit accruals for some or all of current participants.

Today's low long-term interest rates allow companies to lock in particularly high gains. The value of a future obligation in today's dollars is bigger when interest rates are low, because the employer would have to put more money aside at prevailing rates to meet the payments when they come due.

Short-term rates, which contrary to long-term rates have been trending higher in recent months, offer the potential for even bigger gains to companies with so-called "cash-balance" plans, such as IBM, Verizon, H-P, Sears and many other big companies. Under these plans, workers have hypothetical "accounts" to which the employer credits interest each year, often tied to short-term rates. Higher short-term rates means higher interest credits. That, too, raises the pension obligation, and in turn, the savings from reducing the obligation.

Thus, by freezing their U.S. plans at a time when both long- and

Advertiser Links

Featured Advertiser

NASDAQ Presents
"QQQ"
Diversify your portfolio.
[Click Here ...](#)

[Boardroom Connection
A Forum For Leadership
Through Technology
Innovation](#)

[Investor Resource
Center](#)

[FORWARD THINKING:
Investigating major
issues that shape our
future](#)

TODAY'S

- [Citadel Pulls](#)
- [The Rising 1](#)
- [United Char](#)
- [Why Some t
Priced to Sit](#)
- [Top Fund M](#)

COMPANIE

[International I
\(IBM\)](#)
PRICE
CHANGE

[Verizon Comi](#)
PRICE
CHANGE

short-term interest rates are creating bigger liabilities, many companies stand to reap a bigger benefit by reducing their obligation. The companies can lock in the savings today, even if, like IBM, the benefits won't stop growing for two more years.

Meanwhile, employers also are worried that proposed pension-accounting changes proposed by the Financial Accounting Standards Board might make their profits more volatile.

It is impossible to say for sure which companies will follow in the footsteps of IBM and Verizon. Technology and telecom companies such as [Lucent Technologies Inc.](#), [BellSouth Corp.](#) and [Electronic Data Systems Corp.](#), like IBM, Verizon, H-P and Sears, have cash-balance plans that could generate gains if frozen in the current interest-rate environment.

Spokesmen at all three companies declined to comment or said they weren't aware of any plans to change their plans. Lucent is among those reviewing options, says a person familiar with the matter.

IBM wouldn't break out the specific effects of freezing the U.S. pension, but says they account for about a third of its expected savings from pension changes. Nor would it identify how much its projected savings are offset by the estimated cost of increasing 401(k) contributions, which the company announced last week as well. IBM officials said the company began examining a pension freeze in earnest sometime early in 2005, and that the current interest-rate environment didn't play a role in

A decline in long-term interest rates and rising short-term rates have made it advantageous for some companies to freeze pension benefits.

Yield on the 30-year Treasury bond, weekly data



†One-year Treasury data are interpolated by the U.S. Treasury from the daily yield curve
Sources: Thomson Datastream; U.S. Treasury

Yield on Treasury securities at one-year constant maturity, daily data†



*Data are through Jan. 10

1/13

[Hewlett-Packard Co. \(HPQ\)](#)

PRICE	31.90
CHANGE	0.88
	1/13

[Sears Holdings Corp. \(SHLD\)](#)

PRICE	123.08
CHANGE	-0.40
	1/13

[Lucent Technologies Inc. \(LU\)](#)

PRICE	2.65
CHANGE	-0.06
	1/13

[BellSouth Corp. \(BLS\)](#)

PRICE	27.43
CHANGE	0.16
	1/13

[Electronic Data Systems Corp. \(EDS\)](#)

PRICE	24.80
CHANGE	0.06
	1/13

* At Market Close

the decision.

Verizon too, didn't disclose how much of the \$3 billion in savings it expects will come from freezing the pension, nor would it say how much the savings are offset by increased 401(k) costs. The company declined to

comment on whether the interest-rate environment played any role in its decision; it said the decision was driven by its merger with MCI, which didn't offer managers a pension.

An H-P spokesman said the company froze its pension for competitive reasons. "I wouldn't say

[interest rates] played a significant role," he said. H-P didn't freeze its entire plan; rather, it closed it to younger employees and new employees, a move similar to what [NCR Corp.](#), did in 2004. NCR also has a cash-balance plan.

Sears said it froze its plan because traditional pensions have "become competitively unaffordable," and cause "significant volatility in a company's earnings and cash funding requirements."

Companies like Sears, which has an underfunded pension, get cash savings when they freeze their plans in addition to the pension income that boosts the bottom line. Because the obligation is reduced, the plan immediately becomes better-funded, which ultimately reduces or eliminates the need for the company to make cash contributions to the pension fund. Freezing its pension reduced Sears's pension liability by \$80 million.

Write to Ellen E. Schultz at ellen.schultz@wsj.com, Charles Forelle at charles.forelle@wsj.com and Theo Francis at theo.francis@wsj.com

 [EMAIL THIS](#)  [FORMAT FOR PRINTING](#)  [MOST POPULAR](#)  [ORDER REPRINTS](#)

Sponsored by

TOSHIBA
COPY • FAX • PRINT

[ADVERTISERS LINKS](#) | [WHAT'S THIS?](#)

Earn Triple Rebates with Shell

Earn triple rebates with a Shell MasterCard for the first 60 days. That's 35¢/gal at \$2.35/gal at Shell — a 15% rebate...
www.b1live.com/clients/shell/yahoo

Apply for Credit Cards - CreditCards.com

Compare credit card offers from Visa, Mastercard, American express and Discover. Apply for the credit card of your...
www.creditcards.com

Orchard Bank - Credit Card Deals

With our MasterCard selector, you supply the information required to apply for a credit card. We then recommend a...
www.orchardbank.com

[Return To Top](#)

[Log Out](#) [Contact Us](#) [Help](#) [E-Mail Setup](#) [My Account/Billing](#) [Customer Service: Online](#) | [Print](#)

[Privacy Policy](#) [Subscriber Agreement & Terms of Use](#) [Mobile Devices](#) [RSS Feeds](#)

[News Licensing](#) [Advertising](#) [About Dow Jones](#)

Copyright © 2006 Dow Jones & Company, Inc. All Rights Reserved

