

February 8, 2006

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GM's Decision to Cut Pensions Accelerates Broad Corporate Shift

Benefits Curb Follows
 Path of Other Companies
 On Worker Guarantees

The End of Retirement?

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 Staff Reporters of THE WALL STREET JOURNAL
 February 8, 2006; Page A1

(See Corrections & Amplifications item [below](#).)

General Motors Corp.'s move to dilute salaried workers' pensions and make them shoulder more medical bills in retirement is a milestone in the erosion of a deal big American companies struck in the prosperous years following World War II: promised to provide loyal employees with a comfortable retirement free of worry about running out of savings due to age or ill health.

"Our employer-based social-welfare system is collapsing," says Alicia Munnell, director of Boston College's Center for Retirement Research. "GM itself is not a big deal. It's GM on top of Verizon and IBM" -- which both recently froze their pension plans -- "and then there's everything that's happening in weak companies like airlines."



1 QUESTION OF THE DAY

Vote: Is GM moving fast enough in its plans to return to profitability?²

GM, which previously had stopped offering retiree health coverage to salaried workers hired after Jan. 1, 1993, said it would cap health-care spending for other salaried retirees and their families at 2006 levels, forcing them to shoulder all future increases in health costs. The company said the move will save \$100 million a year, before taxes. It follows an agreement last year with the UAW to pare union workers' health benefits.

Auto Workers to pare union workers' health benefits.

Although it offered few details, the auto maker also said it would "substantially alter pension benefits" for salaried workers to "reduce the financial risks to GM." It said the moves would include freezing benefits in its defined-benefit pension plan, a type of plan that promises a monthly check based on years of service and wages -- and introducing one in which retirement benefits are based on a percentage of wages. The company is likely to press the UAW to move its pension plans in the same direction, predicted Fitch IBCA.

PERSONAL JOURNAL

• [How to Protect Your Retirement](#)³

GM is hardly alone, and the trend isn't limited to financially weak companies. Last month, the Japanese auto maker **Nissan Motor** Co., which currently has only 3,500 U.S. workers, said it would limit its share of retiree health costs to 100% of the allowance for inflation.

International Business Machines Corp. last month told 117,000 workers in U.S. defined-benefit pension plans that it would freeze benefits after 2007, saving the Armonk, N.Y., company more than \$2.5 billion over five years. And in December, **Verizon** announced it was freezing the pensions of 50,500 managers, saving \$3 billion in the coming decade. Workers

pensions at retirement but won't accrue benefits with additional years on the job. **Circuit City Stores Inc.** and **Sea**

A larger number of companies are closing pension plans to new hires or to younger workers, including **Motorola Inc.**, **Hewlett-Packard Co.**, **Aon Corp.** and **NCR Corp.** Many have, at the same time, expanded defined-contribution retirement plans, employees themselves contribute to retirement investment pools -- often supplemented by employer contributions. These savings, employees, not employers, bear the risk of inflation, sour markets or outliving their savings. Total assets of defined-contribution plans first exceeded those of defined-benefit plans in 1997.

Then there are other companies that have turned to bankruptcy court in industries such as steel, auto parts, airlines and others. They have walked away from their retirement plans, turning over obligations to pay pensions -- often less than promised. **Guaranty Corp.**, which has warned that its resources are billions of dollars short of its future obligations.



The changes are particularly wrenching for midcareer workers, who don't have many years left to save for retirements that now look very different than the ones many

Overall, the portion of the U.S. work force without any job-based retirement plan rose to 20% in 2005, according to a survey by the Employee Benefit Research Institute, a Washington think tank.

About two-thirds of companies in the Standard & Poor's 500-stock index and more than 5,000 people still offer retiree health benefits. Smaller companies are more likely to offer such benefits. Among companies with more than 200 employees, about one-third offer retiree health benefits, according to the Kaiser Family Foundation and others. That is down from 40% in 1999 and 1998, in part by a 1990 Financial Accounting Standards Board rule that forced companies to recognize pension health liabilities on their books. Of the 300 largest companies surveyed by Kaiser Family Foundation, 30% offer contributions to retiree health plans.

Powerful Forces

All these actions spell the end of retirement as generations have known it. Benefits are being cut or eliminated by powerful forces. When they were very profitable, companies with stable, often unionized

When markets turned, it became clear that some hadn't set aside enough money to fulfill those promises. With profits down at home and abroad, or by changing technology, even companies with well-funded pension plans now are looking for ways to cut costs, even if it's slightly more palatable than cutting wages. "It's driven by economics, not ideology," Ms. Munnell says. "GM needs to focus on the business of providing fringe benefits."

Promises to cover retiree health costs not covered by Medicare were made when health care was much less expensive and lifespans of older people.

"Most of the companies we compete with...have a different benefits structure. A significantly greater portion of them are covered by the national system," GM Chairman Rick Wagoner said at a news conference yesterday. GM's pension and health-care costs are rising, he said, when GM dominated the U.S. and world auto industries. "We're now subject to global competition," Mr. Wagoner said. "People who do not have these costs, because they are funded by the government."

There is some truth in that. Employer pension plans are far less significant in continental Europe, and health-care costs are lower. "The most often-cited example: some of the car makers have shifted to Canada -- just a few miles away from the lower health-care costs that Canada provides," says Dalmer Hoskins, former general secretary of the International Brotherhood of Workers' managing director for policy at AARP, the senior citizens' lobby in Washington.

ECONOBLOG

• With traditional pensions and government-backed social programs under strain, what might workers and retirees expect in the future? [Bloggers sound](#)

Health-care systems in some countries, such as the United Kingdom and Germany, are funded through a payroll tax. In Germany and several other European countries, all employees pay for health care through a payroll tax. The per-person health-care tab is smaller, and coverage is more comprehensive. "Retirees aren't singled out as a separate category," Mr. Hoskins says.

off⁴. workers. That provides certain advantages, because you can spread the cost and the sick and the healthy. You are spreading the risk so it doesn't fall

Significant Shift

The cost-cutting pressures at big companies come as, in many spheres of economic life, Americans are embracing what President Bush calls, approvingly, an "ownership society." The basic notion is that the economy functions best when responsibility -- and risks -- now shouldered by government or employers. In exchange, they get both real and intangible homes rather than renting; controlling their own retirement accounts instead of relying on sometimes-hollow employer health-care or mutual-fund investments that they want, rather than those chosen by employers or government.

It is a significant shift away from a system in which risks -- of illness or other bad fortune -- were pooled and shared. American tradition of employer-provided health care dates largely to wage and price controls of World War II, which offer raises to offer insurance instead. But that system left many Americans without health insurance. When these costs the cost passes to the government and sometimes to the health-care providers who care for them, who recoup their losses. Today, nearly one-third of Americans get their insurance from government programs such as Medicare and Medicaid. One in five doesn't get job-based health insurance.

Employer coverage is particularly important for early retirees not yet eligible for Medicare -- about 3.5 million in all, the Kaiser Foundation. According to a 2002 Medicare survey, about 14.7 million Medicare beneficiaries also had employer insurance, including 2.1 million who were still working. Those people generally rely on Medicare for basic coverage, and employers to pick up some costs Medicare doesn't.

The Medicare prescription-drug benefit is an exception to this rule. To discourage companies from abandoning prescription subsidies to employers to continue to pick up the tab. A survey of 300 large employers by Hewitt Associates and Kaiser plan to continue to offer existing drug coverage for now, though a significant minority said it was likely they would do so in the decade.

Employer pensions in the U.S. began in the early 20th century with the railroads, and then spread to other big employers. The plans became firmly established after World War II as part of a postwar effort to establish labor peace with

Railroads were the first industry to renege on the promises. The government took over their pensions in 1934. Forty Pension Benefit Guaranty Corp. to insure defined-benefit pension plans, after a long campaign spurred by the 1963 which left 4,000 auto workers without pensions. The wrenching recession of the 1980s, coupled with the woes of the industry in pension funding. That led to new laws to force companies to set aside more money.

The strong stock market of the 1990s pumped up the assets of corporate pension plans, easing concerns. But the buyout portfolios.

Contentious Legislation

Congress currently is contemplating contentious legislation to force some companies, particularly financially weak ones, to pay more to support the PBGC. The House and Senate are expected to reconcile competing bills in the next couple of months. The auto industries' woes are likely to make key congressional negotiators, and the Bush administration arguments made by GM and the UAW. GM, for instance, objects to a provision that would require companies with pension plans.

In Detroit, William Smith, who retired as an engineering-center supervisor 13 years ago, said he understands that GM has to see them going into bankruptcy, so I'd rather pay a little bit more now and see them keep going," he says. Mr. Smith is now buying a Medigap policy that supplements his Medicare, twice what he paid a year ago.

That will rise under the new GM policy. "The immediate impact might not be an awful lot, but if you keep going in and up," Mr. Smith says. And while top GM officials are taking pay cuts, Mr. Smith says, they'll make up the difference

improve. By contrast, Mr. Smith says, "whatever we lose is lost forever."

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Corrections & Amplifications:

When Studebaker-Packard Corp. closed in 1963, 3,600 retired workers and those eligible for retirement got their pensions. Workers who were vested but not eligible for retirement, were at least 40 years of age and had at least 10 years of service. The remaining 2,900 workers got nothing. This article Wednesday incorrectly stated that 3,600 workers got pensions without pensions.

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