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IBM Holders Defeat Pension Resolution; Employee-Led Issue Gets 28.4% of Votes

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Staff Reporters of THE WALL STREET JOURNAL

[International Business Machines](#) Corp. shareholders voted against an employee-led resolution urging the company to let workers choose between its old pension plan and its controversial new "cash-balance" plan.

But the resolution, the first of its kind, won 28.4% of the votes, or nearly 300 million shares, well above the 3% needed to guarantee the issue will return on next year's ballot if its backers resubmit it.


The resolution was fueled by IBM's shift to a cash-balance pension plan last year, which angered workers who discovered that the new plan would cut benefits for longer-service workers by 30% or more. After an employee uprising, which led to Senate hearings and government investigations, IBM in September allowed all employees 40 years old or older, and with at least 10 years of service, the choice of remaining in the old pension plan, bringing the number of employees with such an option to 65,000.


Resolution's Backers

The resolution sought to extend that option to all of IBM's roughly 145,000 U.S. employees. Some major investors and advisory firms, including the California Public Employees' Retirement System and the [New York State Common Retirement Fund](#), supported the resolution.

"The company says it needs to be competitive, yet what they are doing has

 **Company Profile:**
International Business Machines

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provoked a very negative response from a large number of their own employees who are supposedly highly valued," said James Heard, chief executive of Proxy Monitor, a leading proxy-voting adviser that supported the resolution. "If you've upset this many of your employees, you haven't done your homework."

During the shareholders' meeting in Cleveland, IBM Chief Executive Louis V. Gerstner acknowledged that some IBM employees were upset but defended the new approach. "I know we have in this auditorium a group of very passionate employees who have strong opinions about the pension changes," he said. But he said other employees are "just as passionate in urging us to change the company even more." These other employees understand "that we must compete for talent and loyalty the same way our 'dot-com' technology competitors do -- more stock and cash upfront and fewer 'old fashioned' benefits like pensions, dependent care, long-term medical and adoption assistance."

He added that the company needed to find a balance between the needs of shareholders and employees. And while the company responded to employee concerns last year by enlarging the number able to decide their pension fate, "We can't do more without putting IBM's competitiveness at risk," he said.

Employee Complaints

Attending the meeting were about 100 IBM employees from 16 different work locations. Some complained that their views weren't fully heard. The meeting, which was scheduled to last until noon, ended a half-hour early. Just as U.S. Rep. Bernie Sanders, an Independent from Vermont who is an outspoken critic of IBM's new pension plan, stepped up to the microphone, IBM's Mr. Gerstner concluded the meeting. A spokeswoman for IBM later explained that there was a time parameter for the question-and-answer session and that Mr. Gerstner stuck to it.

Acrimony was already running high because IBM employees were forced to gather in the street in front of the hotel for their various premeeting and postmeeting sessions. Although the group had a signed contract from the Renaissance Cleveland Hotel, the hotel canceled it 10 days before the shareholders' meeting, saying it had mistakenly double-booked the room. IBM booked all of the space in the hotel last September, said a spokesman for the hotel.

Going forward, IBM employees hope to generate pressure for next year's vote by transferring money in their 401(k) program to mutual funds run by asset-management firms that voted for the resolution. Institutions on the outs with these employees include State Street Global Advisors, which indicated it generally supports management on holder resolutions.

Separately, IBM said it raised its quarterly dividend 8% to 13 cents a share from 12 cents, payable June 10 to shareholders of record on May 10. Mr. Gerstner said he has "confidence about our prospects for the full year," based on growing sales of software, services and hosting for Internet business, both to traditional large customers and new Internet-only start-ups. Among other areas, Mr. Gerstner said IBM's e-business services grew more than 60% last year to more than \$3 billion and grew 70% in the first quarter.

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