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## Rise and Fall of Enron

# Enron Executives' Benefits Kept on Growing As Retirement Plans of Employees Were Cut

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At a time when Enron Corp. was cutting back on its employee retirement plans to save money, executive benefits at the energy company kept getting richer.

Beginning in the 1990s, Enron joined many other U.S. companies in trimming its employee-pension and savings-plan benefits to cut costs. But throughout the same period, Enron also was continuing to offer a lavish set of pension and retirement plans for its top executives.

Those benefits, including a lifelong pension and company-paid insurance premiums for Chief Executive Kenneth Lay, are likely to come under more scrutiny, given the effect of Enron's collapse on the company's employees. The U.S. Department of Labor Wednesday will hold a briefing on its investigation of Enron's retirement plan.

Not only did Enron workers lose their benefits when they lost their jobs, but they also have seen their retirement plans gutted as Enron's stock, which accounted for as much as 60% of the company's 401(k) plan, has dropped to about 50 cents a share from a peak of \$90 last year.

At the same time that employees were locked into much of the Enron stock in their 401(k) plans, executives last year sold shares valued at about \$128 million, on top of \$486 million in sales in 2000, according to Thomson Financial/Lancer Analytics, which tracks insider transactions. Mr. Lay alone sold shares valued at \$29.8 million during that period.

[See full coverage of the Enron saga.](#)

According to company filings, Enron will pay Mr. Lay a pension estimated at \$475,042 a year for life. In addition, as part of an agreement Mr. Lay signed with the company in 1996, it agreed to pay a

total of \$1.25 million in insurance premiums through 2001 on a \$12 million life insurance policy. Other executives have similar pension or insurance agreements with Enron.

Such so-called "split-dollar" policies are used to channel executive pension benefits into vehicles that executives can tap or pass on to their heirs, mostly tax-free. Enron also has a kind of executive 401(k), established in the 1980s, which guarantees executives in the plan minimum returns of 12%.

In addition, at the time the company was reducing pensions for most of its employees, Enron set up an executive savings plan that lets participating executives contribute 25% of their salaries and 100% of their cash bonuses each year. The participants were guaranteed a 9% return on the first two years of the plan, and they were allowed to put their money into an array of investments -- not just Enron stock.

While the existence of Enron's executive benefits is outlined in company filings and Securities and Exchange Commission documents, the total cost of the pension and retirement promises to Enron executives is nearly impossible to measure. The cost of the split-dollar arrangements is largely invisible (only the premiums are reported as an expense), and the benefits that accrue in the executive savings plans (also known as deferred-compensation plans) aren't required to be disclosed. An Enron spokesman didn't respond to requests for comment.

However, filings show that the liability for the executive pensions was \$56 million in 2000, or about 8% of the total pension liability for all employees and retirees.

The documents do show that at the same time that Enron was beefing up retirement benefits for its top executives, it was cutting them for its other workers.

According to SEC filings, in 1986 Enron set up an employee stock-ownership plan, which bought 8.7 million shares of Enron stock in exchange for a note of \$335 million. To pay off much of this debt, the company in January 1987 terminated its overfunded pension plan, and transferred the \$230 million in surplus assets, tax-free, to the ESOP.

Meanwhile, the company set up a new pension plan, transferring into it the assets and liabilities from the old plan; the new plan, though no longer overfunded, was less costly than the old one.

But even though Enron set up an ESOP and a new pension, this doesn't mean Enron employees were to enjoy benefits from both a pension and an ESOP. That is because Enron created a so-called "floor-offset" arrangement between the pension and the ESOP. That meant the benefits employees earned in one plan essentially erased benefits earned in the other. These arrangements have been used by many companies,

including [Hewlett-Packard](#) Co. and [Airborne](#) Inc. A major reason why companies set up these arrangements is to reduce their pension expense. And, indeed, the "offset" contributed to a significant decline in Enron's pension expense, which was \$3.6 million in 1987. After the offset was established, instead of an expense, Enron's pension actually contributed \$9.6 million to Enron's bottom line in 1988.

In an unusual step, Enron calculated the ESOP "offsets" based on the price of the stock from 1996 to 2000, when it was trading between \$37.75 and \$43.44. As previously reported in *The Wall Street Journal* (see [article](#)), it then used the higher locked-in value of the ESOP accounts to permanently cut the value of pensions that employees had earned between January 1987 and January 1995. According to filings, employees had \$116 million in ESOP assets at the end of 2000. The assets now are nearly worthless.

Some Enron employees still will receive their pensions -- albeit at the reduced values. How much employees lost depends on the size of the pensions they had earned, and the value of their ESOP accounts from 1996 to 2000. This arrangement comes to light because Enron sought -- and received -- permission from the Labor Department to change its plan in this fashion; company documents also indicate that Mr. Lay's pension wasn't affected by the ESOP offset.

Not only were the past pensions permanently erased, but the pension going forward, in 1996, also was reduced. At that time, Enron converted the traditional pension to a cash-balance pension, which reduces the benefits build-up for longer-term, older workers. This fall, as the company slid toward bankruptcy, Enron said it might freeze the pensions of all employees, and it stopped contributing to the 401(k).

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