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U.S. BUSINESS NEWS

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GE to Disregard Pension Income In Calculating Top-Level Salaries

Proposal by CWA Prompts Decision Faced by Other Large Companies

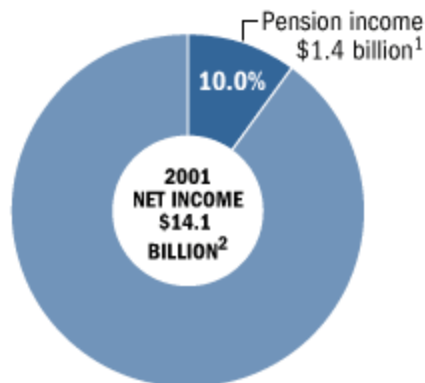
By KATHRYN KRANHOLD and ELLEN SCHULTZ
Staff Reporters of THE WALL STREET JOURNAL

In a move that could have a significant impact on top-level pay at **General Electric Co.**, the company has agreed to determine senior executive compensation without regard to any income generated by the pension plan.

The Fairfield, Conn., conglomerate recently adopted the measure in response to a shareholder proposal by the Communications Workers of America, which includes thousands of the company's workers and retirees. In response, the CWA has withdrawn its proposal. Ed Fire, president of IUE-CWA, praised the GE move as "a step in the right direction."

A number of large companies, including **International Business Machines Corp.**, face similar shareholder proposals, and GE is the first large company to move on it. Even though pension assets have declined at many large companies, the pension plans still pump billions into earnings, thanks to accounting practices.

portion of the company's net income in 2001



¹After tax
²Before accounting charges
Source: the company

GE's pension plan generated more than \$2 billion in pension income in 2001. According to the company, the pension plan contributed \$1.4 billion to income, after taxes, or about 10% of the \$14.1 billion in net income before accounting charges.

In 2002, a company spokesman says, the pension plan contributed \$1.5 billion to income, or \$1 billion after-tax.

Creating a Distortion

GE, like other companies, calculated its top executives' pay based on various factors, including cash-flow growth and earnings per share. Until now, in determining its earnings per share, GE included pension income.

EXECUTIVE PAY

- [Page One: For GM's Retirees, It Feels Less Like 'Generous Motors'](#)²
- [GE, Coca-Cola Will Scale Back Executives' Retirement Benefits](#)³
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- [GE Will Let Shareholders Vote on Chairman Proposal](#)⁴
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- [Page One: GE's Immelt Renovates House That Jack Built](#)⁵
02/06/03

COMPANIES

Dow Jones, Reuters

General Electric Co. (GE)

PRICE	23.42
CHANGE	-0.38
U.S. dollars	5:01 p.m.

International Business Machines Corp. (IBM)

PRICE	78.56
CHANGE	-1.39
U.S. dollars	4:01 p.m.

* At Market Close

Pension income isn't actual income on the pension investments; rather it is a figure generated by accounting rules that let companies count as income the amount by which estimated investment return on pension assets exceed a pension plan's current costs.

Sumanta Ray, a senior analyst with CWA who has been in talks with GE, said the "pension income distorts the pay for performance. You're not just looking at the performance of the operating part of the company."

Because executive compensation is increasingly based on earnings, some shareholders have argued that the pension income should be disregarded, as it doesn't represent corporate operations and performance. When executive pay is linked to pension income, it "could create a perverse incentive to manipulate certain assumptions related to the pension fund's expected rate of return," said Mr. Ray.

MORE COVERAGE

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Over the past decade, pension income had been growing substantially, thanks not only to healthy returns on pension assets, but also to cuts in pension benefits. Some shareholders have worried that linking executive pay and pension income creates an incentive for companies to cut pension benefits and withhold cost-of-living increases.

Reaching Out

As part of a broader move to reach out to shareholders, GE's presiding director and head of its compensation committee, Andrew Sigler, is scheduled to meet with several large shareholders next month to discuss executive compensation, said Gary Sheffer, a GE spokesman.

The company, whose products range from household light bulbs and refrigerators to the NBC television network, plans to spell out the next compensation system in its 2003 proxy, due out next month. The change will have an impact on the long-term incentive compensation program for the three-year period starting this year. The management-compensation committee will also be provided with net income figures minus the pension income when considering executive bonuses, which are awarded each February, Mr. Sheffer said.

Despite recent declines in the stock market, pension income continues to contribute significantly to the bottom line of many companies, as most still have substantial pension assets and surpluses, and accounting rules enable companies to spread the impact of asset declines over a period of years.

GE, for example, reported \$2 billion in pension income in 2001, even though the pension plan had a loss of \$2.9 billion, and assets declined to \$45 million from \$50 million in 2000. (This phenomenon arises because companies don't use the actual returns from the pension plan when calculating "pension income," which is the figure that is used when calculating company earnings.)

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