Workers lose jobs, health care and savings at Enron

Steve Paulsen
14 January 2002

Thousands of current and former Enron employees have lost their jobs, health care and life savings since the bankruptcy of the gas and trading giant last month, while records show that many of Enron's top executives made in the tens and some in the hundreds of millions of dollars during the past year, while concealing the true financial state of the company.

In the largest corporate bankruptcy in history, Enron filed for bankruptcy protection December 2, only a few weeks after admitting that it had overstated earnings by more than $586 million since 1997 and competitor Dynegy backed out of a deal to buy part of the company for $10 billion.

The day after filing for bankruptcy, Enron fired 5,000 workers, one quarter of its 21,000 employees. The company expects to fire more workers as it sells or shuts down business units.

The layoffs at Enron's showcase 50-story headquarters in downtown Houston were especially brutal, where 4,500 of the 7,500 workers there were let go. Houston police were brought into the building, and just before lunchtime all nonessential employees were told to go home. On their way out, many were told that they did not have jobs anymore. Others were called at home with the message that they had been fired.

Laid-off workers received a mere $4,500 severance payment, no matter how many years they had worked for the company. In the past, workers had received one week's pay for each year of work and one week's pay for each $10,000 a year in salary. Workers are not being told if they will receive any additional benefits or whether the company will enforce a contract provision that bars workers from collecting any severance pay if they sign up for unemployment benefits.

Enron also canceled all health and medical insurance for the 5,000 laid-off workers. Many workers had to cancel surgery, including at least one worker who was scheduled to undergo cancer treatment. Another worker reported that she only found out her insurance was canceled when she went to pick up medication for her husband who was recovering from heart surgery. She said that the antibiotics and blood pressure medicine now cost her $250 compared to the $10 co-payment she had previously paid.

Federal law requires that companies offer laid-off workers continued health-care coverage for 18 months. However, Enron has not provided workers with information on how to sign up for the continuing benefits. Even if or when the company makes continuing coverage available, most laid-off workers will be unable to afford the average premium of $7,000 a year.

Thousands of current, laid-off and retired workers lost most of their life savings when the company prevented workers from selling Enron stock held in 401(k) saving accounts just as the stock price plummeted.

"I can tell you, without pulling punches, something stinks here," said Charles Prestwood, a 63-year-old retired plant operations worker who lost 99 percent of his savings when Enron collapsed. "I lost everything I had," Prestwood said. He testified along with several current and retired workers in front of a Senate hearing held last month.

Millions of workers save money for retirement in company-sponsored 401(k) plans, which the company will match with a limited contribution, usually in the form of company stock. While the company gets a 100 percent tax write-off for their portion, they usually require workers to keep the money invested in company stock for a set number of years or until they reach a certain age.

Enron did both. Enron would not permit workers under 50 years of age, or with less than five years service, to sell the portion of the 401(k) that had been the company's contribution. In addition, like most companies, Enron encouraged workers to invest their own money in the company's stock. Consequently, more than half of employees' 401(k) savings, or about $1.2 billion, was invested in Enron stock. Those shares are now nearly worthless.

Moreover, in the very critical period from the end of October through much of November Enron prevented all workers and retirees from selling any company shares held

© World Socialist Web Site

in their 401(k) accounts.

"It seems strange to me that as soon as the really bad news came out on Enron, we found ourselves unable to move out of the stock," said 47-year-old Robert Vigil, an electrical machinist and foreman for Enron. Vigil said the losses for eight of his co-workers totaled nearly $2.9 million. "You can imagine how this catastrophe has affected us," he said. "Now multiply that feeling across thousands of other homes."

Enron claims that they notified participants in a letter dated October 4 that the lockdown would begin October 29 and last through November 20. However, Prestwood testified that his letter was dated October 8 and postmarked October 10.

Janice Farmer, a retired Enron worker from Florida, said she did not receive any notice of the lockdown. She said she became concerned over the stock's slide and called October 22 to sell her stock but was told she had been locked out. Ms. Farmer was not able to sell her stock until November 26 and she received only $20,416 out of her $700,000 retirement savings. She now faces surviving on a $63 monthly Social Security check.

"I cannot help but feel that I and thousands of employees like me have been lied to and we have been cheated," Farmer said. "Instead of being rewarded for my hard work and loyalty, I am left with a lawsuit against my employer and those responsible."

The stock lockdown began the day after Enron's release of a $618 million third-quarter loss that sent the stock into a tailspin. On October 10 Enron stock was selling for $35 a share, on October 26 it had fallen to $15 and by November 20 it had fallen to $7. By the end of November Enron stock was selling for under 50 cents a share.

Company officials said that the lockdown was necessary to maintain accurate records while the company switched to a new administrator of the plan. However, lawyers representing workers who lost their savings argue that a plan should not be touched, let alone shut down, during a period of financial trouble.

While workers and retirees were losing their savings, top executives and directors of the company—those who knew and were responsible for the concealment of losses and the dubious financial practices—were making millions in the sale of their stock.

Between January 1 and August 31, 2001, 20 top executives and directors sold 2,989,178 shares of Enron stock for a total of $116,977,511. At the top of the list was Lou L. Pai, chairman and CEO of Enron Xcelerator, who made $33,629,380. Next came Kenneth L. Lay, chairman and CEO, who made $16,103,181. Lay was followed by former president and CEO, Jeffrey K. Skilling, who made $15,554,700. Skilling abandoned Enron in August after holding the top job at the company for only six months.

Over the past four-year period, Enron's top executives and directors took in nearly $600 million through the sale of company stock.

Under federal law, executives are only allowed to sell stocks during pre-announced specific times, typically inside windows between earnings reports. However, starting November 2000, many top executives began selling stock year-round on a regular basis according to a plan approved by securities regulators.

For example, Kenneth Lay sold 4,000 shares per day from November 1, 2000 until February 2001; 3,000 per day from February to April and 3,500 per day from May until August 21, the last day records were still available. Skilling sold 10,000 shares a week. The ability to sell shares continually this way was part of the deregulation of the securities industry.

In all, Lou Pai made $353.7 million from the sale of Enron stock while Lay sold $101.3 million worth of stock, or 24 percent of his stake in the company.

In addition, just days before filing for bankruptcy, Enron paid $55 million in retention bonuses to about 500 top executives. One quarter of that money went to just 11 people. Those 11 received payments ranging from $500,000 to $5 million. This was in addition to $50 million in bonuses paid earlier to 75 other executives.

Individual workers and retirees were not the only ones hurt by the Enron meltdown. While the executives made millions, retirement funds for millions of workers had also been invested heavily and lost millions in Enron stock.

In Texas, the Teachers Retirement system lost $35.7 million in Enron stock. The fund had bought $9 million worth of stock just three weeks before the company went bankrupt. The state's Employees Retirement System lost $24 million and smaller retirement investment funds lost another $3.3 million.

In Florida, the pension fund for teachers, state employees, and county workers bought 7 million shares of Enron stock during the past 18 months. Officials for the fund that covers 650,000 workers and 150,000 retirees estimate they lost $306 million. The state of California's retirement pension fund owned nearly 3 million shares of Enron stock.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site