New US pension rules to cut benefits for millions of retirees

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The Bush administration is preparing to end a moratorium on the implementation of so-called cash balance pensions plans. New pension rules proposed by the US Treasury Department could result in substantial benefit reductions for millions of future retirees, with companies phasing out traditional plans.

The rule changes meet a major demand of US corporations, which have made lifting the moratorium one of their top priorities. A spokesman for the Pension Rights Center said he expected a rash of protests from workers as a result of the changes, which threaten the already precarious retirement security of millions of American families.

Under a traditional pension plan a worker's benefit is usually based on a percentage of yearly earnings multiplied by the number of years employed. Yearly earnings are often calculated based on an average of the three final years, typically the highest-pay years.

Under a cash balance plan the employer creates an "account" for each worker, which is credited a certain amount of money for each year worked plus interest. At retirement the worker can take the accumulated money as a lump sum or turn it into an annuity.

Traditional pensions usually provide higher benefits, especially if the worker stays with one employer until retirement, since the benefit is calculated on the highest paid years, not average pay over the length of his or her employment. A changeover to a cash balance plan can rob workers nearing retirement of thousands of dollars in expected pension benefits.

While companies are not allowed to eliminate benefits already accrued, they may slash future benefits. When a company switches to a cash balance plan older workers may not be able to accumulate further benefits for years until the cash balance account "catches up" to the level under the old system. Opponents of the change say that the Treasury plan allows employers enormous leeway, giving them the power to establish all the rules, including the benefit amounts and the "value" of benefits accumulated under the old plan. Some companies could save up to $100 million a year by converting.

The Treasury Department decided in early December that cash balance plans do not necessarily violate rules against age discrimination, even though older retirees can lose as much as 30 percent of expected benefits compared to what they would receive under a traditional fixed-benefit pension. The proposed changes will go into effect after a 90-day comment period. They are expected to precipitate a rash of changeovers by companies eager to slash pension costs. In 1999 the Clinton administration imposed a moratorium on cash balance plans.

In 1999 workers at IBM protested when the company announced a changeover to a cash balance plan. There were congressional hearings and hundreds of lawsuits charging age discrimination. As a result the Internal Revenue Service imposed a moratorium on approval of new cash balance pensions.

Since the early 1980s more and more businesses have been eliminating fixed benefit retirement plans. Bank of America instituted the first cash balance plan in 1985. These plans became more popular with employers in the 1990s. The Communication Workers of America supported switchover to such a scheme at AT&T, the giant telecommunications firm, and this betrayal helped encourage a rash of changeovers. Currently some 19 percent of the 1,000 largest US companies have cash balance pensions. Cash balance plans are particularly popular because they get around IRS rules that impose a substantial tax penalty on companies that eliminate fixed pensions.

This new assault on pension benefits comes as the security of workers nearing retirement age is in its most precarious state in decades. According to a recent analysis of US Census Bureau data, more than half of workers between the ages of 25 to 65 have no retirement accounts of any kind. For older workers between the ages of 55 to 64, three out of four live in households with retirement savings between zero and $56,000.

Only about 30 percent of workers participate in retirement plans that provide a fixed benefit for life. However, these plans are currently underfunded by about $300 billion, according to the Pension Benefit Guarantee Corp that insures US pensions. Among those with large underfunded pensions are General Motors and IBM.

The future of the federally funded Social Security pension system is itself in doubt. Payouts from the fund are expected to exceed revenues by around the year 2016. The Bush administration and employers are pushing to eliminate the current fixed benefit provided by Social Security in favor of so-called private accounts. There is also pressure to slash benefits and further increase the retirement age.

Workers' anger at the proposed pension changes is compounded by reports that incoming Treasury Secretary John Snow will receive some $2.47 million in annual pension benefits from CSX Corporation, where he was chief executive officer. CSX is the parent company of a wide network of subsidiaries providing transportation services.

In calculating the benefit, CSX gave Snow credit for 44 years of service, although he only worked at the company for 25 years. It also based his payout not only on his salary, but bonuses and the value of 250,000 stock shares awarded by the board of directors. According to CSX filings, Snow's pay increased 69 percent last year to $10.1 million, up from about $6 million in 1997.

Meanwhile retirees at CSX are charging that the company cheated them out of promised life insurance benefits. Forty-one workers at the company's Greenbrier Hotel and Country Club in West Virginia have filed a lawsuit against CSX, saying the company cancelled life insurance coverage without properly informing employees.

CSX is also implementing rules starting January 1, 2003 depriving new hires of lifetime health benefits unless they are covered by a union contract providing for payment of such benefits.