No pension crisis for US corporate bosses

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An annual income upwards of $10 million a year (See “The orgy continues: American CEOs pocket billions more in pay and perks”) should be sufficient to allow the boss to set aside sufficient funds to assure a comfortable retirement. Not taking any chances on their golden years, however, most CEOs have established Special Executive Retirement Plans (SERPs) that pay them many times the amounts allocated to ordinary workers.

Consider the situation of Henry McKinnell, chairman and CEO of Pfizer, Inc., the world’s largest pharmaceutical manufacturer. Last year, his annual compensation skyrocketed 72 percent to $16.6 million plus a stock option grant valued at another $4.3 million—this in spite of a 24 percent drop in the company’s stock last year over concern about losing patent protection for its blockbuster cholesterol-reducing drug Lipitor.

McKinnell will not have to worry, however, about having to cut back his living standard after retirement, which is expected in three years’ time. Because of his SERP, Pfizer will pay him some $6.5 million a year for life.

In case one is wondering how the drug maker can afford to offer such a lavish pension to a single executive, one only has to look at this month’s announcement of a $4 billion annual cost-cutting plan. While Wall Street analysts were pleased, many workers were not. By one estimate, as many as 10,000 jobs out of a global workforce of 115,000 are expected to be eliminated. Last month, the company announced the closing of its plant in Holland, Michigan, the first among several considered less efficient. In this case, 300 jobs will be destroyed.

On April 7, the federal Food and Drug Administration ordered Pfizer to withdraw from the market its painkiller Bextra due to safety issues, as well as to attach a strong warning to its labeling on the even more popular painkiller Celebrex, determined to cause an increase in the risk of heart attacks, among other problems.

McKinnell is hardly alone in arranging a multimillion-dollar pension upon retirement. The chief executive of Exxon-Mobil, Lee Raymond, is due to receive $5.9 million every year. Others on the gravy train for life include Edward Whitacre of SBC Communications at $5.5 million; William McGuire of UnitedHealth Group at $5.1 million; and Robert Nardelli of Home Depot at $3.9 million.

McGuire took home no less than $210 million in salary, bonus, and stock option gains over the prior 10 years. Whitacre received $104 million over the same period.

The fate of Franklin Raines, the head of the federally chartered mortgage lender Fannie Mae, demonstrates that scandal and disgrace are no bar to receiving a full pension. Raines was ousted in December after a $9 billion accounting discrepancy was uncovered. He is still assured his retirement pay, which is valued at $25 million total. He even had a provision written into his employment contract that his $1.4 million annual pension would pass on to his wife should she survive him.

The costs of the exorbitant retirement plans afforded to chief executives are usually hidden from view. For public corporations, salary, bonus, and stock options for the five highest paid officers must be disclosed in company filings. Executive pension costs, however, are often buried in tables in proxy statements that take an actuary to decipher.

Two other executive pension benefits frequently go undetected, hidden in footnotes to company documents. Glenn Tilton, chairman and CEO of the bankrupt United Airlines, will receive his $4.5 million of retirement benefits regardless of the fate of his company. United set aside his future money in a trust that was fully funded. Meanwhile, Tilton is demanding that pilots and other unionized employees give up their own pension plans as a condition for bringing the company out of bankruptcy.

Another lucrative device is to add years of service to the tenure of the retiring CEO. Last year, Linn Draper of American Electric Power stepped down after 12 years with the company. His pension was calculated, however, crediting him with 36 years, resulting in a tripling of its value. A company spokesperson said such awards to CEOs were consistent with industry practice.

When Bank of America chairman Charles Gifford retired in January, his $3.1 million annual pension was apparently inadequate. As a supplement, he was awarded prime tickets to see the world championship Boston Red Sox baseball team. He also was given 120 hours' use of the corporate jet, in the event he has to summon his guests to the games.

The provision of such perks, formerly confined to the CEOs' working years, has more and more been extended into retirement, frequently for life.

When then-chairman of General Electric Jack Welch signed a retirement agreement in 1996, the board of directors agreed to provide him with "facilities and services" comparable to those received when working. As a result of a divorce lawsuit in 2002, it was revealed that, in addition to his stated $10 million annual pension, he was receiving use of a posh New York City corporate apartment, season tickets to premier sporting events around the world and a box at the Metropolitan Opera. Even such incidentals as maid and laundry service, daily delivery of cut flowers, and newspaper and magazine subscriptions were on the company's tab.

Welch also received memberships in four exclusive country clubs, another must for both current and retired chief executives. ChoicePoint, a seller of consumer data based in Georgia, footed the bill for its head Derek Smith to play golf. The initiation came to $150,000, with annual dues of $21,058 last year.

Other common requirements include the fees for tax advice and investment analysis. In many cases, the benefit also includes reimbursement of higher income taxes owed for use of the services.

Bank of America last year spent $35,889 for home security monitoring and to provide secured parking to Gifford's successor as CEO, Kenneth Lewis. One CEO was given funds to allow him to donate to his favorite charity in his personal name. Another was provided money to fund a scholarship for his alma mater, also in his own name.