US: Verizon to freeze defined-benefit pensions for 50,000 managers

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Verizon Communications, the second-largest US phone company, announced December 5 that it will end defined-benefit pensions for 50,000 management employees in a move expected to save the company around $3 billion over the next decade.

The company said that after June 30, the affected employees will no longer earn pension benefits or receive additional credits toward subsidized retiree medical benefits. Although current Verizon managers who retire will collect benefits as expected, the move means that those benefits will be frozen at current levels. This means an employee who has worked 20 years for the company will receive the pension benefits of a 20-year employee, regardless of how long he or she continues to work there.

This could prompt some workers to take early retirement, for which they would qualify if they have worked at least 15 years and their years of service and age add up to 75 or more. After June 30, 2006, affected managers will stop earning benefits and receive no additional credit toward the company's subsidy of retiree medical benefits.

At present, Verizon pays 50 to 80 percent of the health care premiums for retired workers who have worked 15 to 30 years at the company. After July, workers who do not have 15 years of service will never become eligible for retiree medical benefits.

While the decision does not affect Verizon's 100,000 union employees, this will no doubt change as contracts expire and are renegotiated.

The dismantling of pensions and health benefits in the US is at an advanced stage. Over the past decade, 50 percent of pension plans in the US have been lost, according to the American Benefits Council. These have mainly been in older manufacturing or airline industries suffering severe financial difficulties and bankruptcy. Such was the case with United Airlines in May of this year, when a federal bankruptcy judge ruled that the company could default on its pension obligations and turn over control of its pension funds to a federal agency, the Pension Benefit Guaranty Corporation (PBGC), which is limited to a maximum payment of around $45,000 a year for retirees.

Other big companies to gain court permission to terminate pension plans in recent years are Huffy bicycles, Big Bear supermarkets, US Airways, Polaroid, Kaiser Aluminum, Bethlehem Steel, West Point Stevens, and Archibald Candy. The PBGC has taken over so many plans that it is now running a $23 billion deficit.

More than 37 million Americans have no health insurance. According to the Employee Benefit Research Institute (EBRI) in March 2005, "Continuing cutbacks mean that most American workers will never become eligible for retiree health insurance from a private employer."

The EBRI notes, "Both early retirees and those over age 65 experienced a substantial drop in employer-based retiree coverage from 1997 to 2002, the last year for which numbers are available."

Citing their own report, the EBRI says the "percentage of private employers that offered health benefits to early retirees (those under 65) fell to 13 percent from 22 percent. The overall percentage of early retirees who had retiree health benefits fell to 29 percent from 39 percent over the period." Only 13 percent of private employers "offered retiree health benefits to Medicare-eligible retirees (65 and older)" according to the EBRI, a drop from 20 percent.

"The overall percentage of older retirees who had retiree health benefits dipped to 25 percent from 28 percent during the five-year period," the report states, concluding, “Some workers may have to delay retirement because they will not be able to afford health insurance premiums or out-of-pocket medical costs.”

The Verizon decision stands out because this is not a company on the verge of bankruptcy. Verizon originated as one of the so-called “Baby Bells” resulting from the breakup of AT&T in 1984. The company earned $1.9 billion in the third quarter of this year and operates in 28 states, controlling about 50 million phone lines. Verizon is said to have more than enough money to cover its $4 billion pension liability. Rather, the pensions announcement is a calculated business decision related not to falling profits but to the strategic orientation of the company.

Like others in the telecommunications market, Verizon is seeking to refashion itself from a utility into a technology company. The pensions shift coincided with an announcement that the company is to sell its phone-directories business in a deal that could be valued at more than $17 billion, which will be put toward a massive upgrade of the network to bring fiber-optic cables to millions of homes.

Verizon is also expected to complete within weeks an $8.4 billion acquisition of MIC Inc. as well as planning to focus more on its wireless business, Verizon Wireless. Verizon’s vision is to become a broadband and wireless provider.

One of the reasons cited for the scrapping of the pension scheme was to harmonize pensions throughout the different divisions of the company. Neither Verizon Wireless nor MIC have a significantly large unionized workforce, and both operate a 401k system rather than defined benefits.

Verizon is the latest in a long list of companies to eradicate defined-benefit pension schemes in favor of so-called 401k packages, where the employee pays a proportion of his wages toward a pension fund that is then invested in stocks, bonds and money-market accounts. Such plans shift the burden of saving for retirement on to employees and have no guaranteed payout, as the size of the savings is dependent in part upon investment allocations and market performance. With the collapse of the so-called dot.com bubble, many workers saw their pensions eradicated as investments were wiped out when technology stocks crashed.

Under the new plan, Verizon is to pay a dollar-for-dollar match for investments up to 6 percent of an employee’s salary. The company says this may increase to $1.50 if certain performance and financial targets are met in the future.

Verizon chairman and chief executive Ivan Seidenberg stated in a news release, “This restructuring reflects the realities of our changing world. Companies today, including many we are competing with, are not implementing defined pension plans or subsidized retiree medical benefits.”

These same “realities” dictate that other telecommunications companies—such as the newly merged SBC and AT&T, BellSouth, and Qwest—will also consider cutting the benefits of their tens of thousands of workers. Karen Ferguson, director of the Pensions Rights Center, a nonprofit advocacy group in Washington, told the *New York Times*, “If a company as large as Verizon goes in this direction it could encourage others to do likewise to the detriment of the retirement security of millions of American workers.”