US: IBM to freeze pension plan in 2008

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In the latest attack on retiree benefits for US workers, technology giant International Business Machines (IBM) announced Thursday, January 5 that it will stop contributing to its traditional pension plan in 2008.

The company expects to save billions of dollars by moving employees over to a 401(k) savings plan and freezing the existing plan from 2008. Together with changes proposed for 2006, which are under consideration in several other countries, IBM expects to cut worldwide retirement-related expenses this year by $450 million to $500 million. From 2006 through 2010, the company expects to cut costs by $2.5 billion to $3 billion.

The company has said that the move will not affect the 125,000 retirees, former employees with vested benefits or those who retire before January 1, 2008. For many of the more than 320,000 IBM employees worldwide, however, any hope of a guaranteed pension has been dashed by the announcement. Though the plan refers only to US workers, the company is known to be reviewing its pension schemes worldwide.

As of December 31, 2007, workers participating in the current defined benefit pension plan would stop accruing new benefits, with the pension being effectively frozen from that point. In January 2008, all US employees will receive a so-called enhanced 401(k) savings plan. IBM plans to double the current company match up to 6 percent of salary and to make additional automatic contributions of 1 percent to 4 percent of employees' pay. In this way, IBM claims to be able to ensure 100 percent participation in the plan.

Unlike the traditional guaranteed pension plans, regardless of how much is paid into a 401(k) there is no guaranteed pension upon retirement. This is because the scheme depends upon the performance of stocks in which the funds are invested. It will not be lost upon those at IBM that with the collapse of the so-called dot.com boom, tens of thousands of workers saw their pensions wiped out.

IBM is only the latest in a long line of employers to announce cuts in retirement benefits. Most recently the second-largest US phone company, Verizon, announced an end to defined pensions for 50,000 managers.

IBM rival Hewlett-Packard Co. announced changes last summer, meaning that starting this month HP froze the pension and retiree medical benefits of employees who did not meet defined criteria based on age and years of company service. HP increased its matching contribution to most employees' 401(k) plans from 4 percent to 6 percent of pay.

A study published December 21 of last year gives figures for 2003 showing almost 1 in 10 pension plans insured by the federal Pension Benefit Guarantee Corp. were frozen. A report in the *Detroit Free Press* states, "Defined-benefit plans are now underfunded by an estimate of $450 billion." According to the American Benefits Council, 50 percent of pension plans in the US have been lost over the past decade. Most of these were in manufacturing and more recently in the airline industry. The announcement by IBM is part of a growing trend among so-called white-collar sectors to dismantle pensions and health benefits.

Though clearly part of a wider trend, the announcement by IBM is not without its own significance. Within the IT industry, IBM has been known as a secure and desirable employer in no small part due to its relatively generous pensions and other benefits. This was at one time necessary in order to attract the most talented people in an industry that thrives on technological innovation. There are those who argue that this is still the case, and that the new decision on pensions will be to IBM's detriment in the long run. What the company is banking on, however, is the generalized nature of the attacks it is carrying through.

So long as other companies are doing the same, then a new benchmark is set. Though technology graduates will still look for the best long-term package in their search for employment, they will be increasingly unlikely to find defined-benefit pensions on offer as part of the deal.