Kodak ends retiree benefits to emerge from bankruptcy

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The former imaging giant Kodak, based in Rochester, NY, had filed for Chapter 11 protection from creditors in January of 2012. The WSWS had written at the time, in “The bankruptcy of Kodak,” that the maneuver would be utilized to shed worker benefits, health care, dental benefits, life insurance and retirement pensions. Now, a little over a year later, the company has discarded numerous long-time promises to workers.

Conditions in the Rochester area have been deteriorating. There has been a constant demolition of buildings at the sprawling Kodak industrial park as jobs were outsourced or eliminated. Kodak had over 145,000 workers worldwide and over 60,000 locally at its height in the 1980’s, and some 3,500 still continue to work in the area according to the Rochester Business Journal. There are also thousands of their former workers who have remained within the community. Rochester has approximately 210,000 people as of the 2010 census. Unemployment has been at chronically high levels, and the December figures from the U.S. Department of Labor are at 10.2 percent, increasing from the previous month. There are few prospects for jobs. Scarcer still are those with decent benefits.

In a press release from Kodak at the beginning of March, the company announced the acquisition of in excess of $800 million in new loans after the conditions of main concern for investors were satisfied—namely, the benefits promised to retired and terminated workers. Kodak CEO Antonio M. Perez announced, “As we move toward finalizing our Plan of Reorganization, we are pleased to have reached an agreement with our lenders that gives Kodak additional financial flexibility in how we reach our ultimate goal of a successful emergence with a sustainable business model.” Kodak anticipates closing the financing in mid-to-late March, with the consent of the bankruptcy court in Manhattan.

In November of last year, the company asked a federal bankruptcy judge to discontinue retiree medical benefits after a deal had been negotiated between Kodak and a committee comprised of former workers to represent the thousands of retirees as a group. Their spokesperson was Bob Volpe, a retiree from Kodak who served as the human resources manager at the company for 32 years. The original plan was for Kodak to discontinue retiree health spending, in exchange for handing over the $635 million in unsecured claims payable by the company to the retirees. The committee representing the retirees announced the sale of the phantom $635 million worth of claims for a scanty $70 million to unnamed investors. The diminished figure plus an initial $7.5 million administrative payout are expected to cover only pre-Medicare and survivor income benefits for a short period.

As of January 2012, the Pension Benefit Guaranty Corporation (PBGC) has intervened in the Kodak retirees defined benefit pension plan. The PBGC is a federal agency created under the Employee Retirement Act 1974 (ERISA). The PBGC guarantees pensions for nearly 43 million people in the United States. The Board of Directors consists of the Secretaries of Commerce, Treasury and Labor with an advisory committee consisting of seven members with backgrounds in business and labor unions.

PBGC revenues come partly from charging premiums to the private companies with company-sponsored retirement benefit plans, collecting $2.2 billion in fiscal year 2012. These premium rates are set by the US Congress. The PBGC has warned they are set too low to cover the obligations left them by bankrupted companies. Congress passed legislation that will increase PBGC premiums in 2013. The insurance fund is perennially in deficit. Last year’s figures reveal that they are at record shortfalls. In the single-employer plan for last year, $105.6 billion in benefits obligations were matched by only $83 billion in assets and a deficit of $29 billion.

There are nearly 63,000 people covered in the Kodak pension plan. The PBGC stated that the plan was at 86 percent of full funding as of January 2012, when Kodak filed for bankruptcy. They also reported "Kodak's pensions are reasonably well-funded and we want to make sure they stay that way. We will actively participate in the Kodak bankruptcy to protect the pension plans for their workers and retirees." Since then, the funding for the pension has dropped to 74 percent. Some of the drop is attributable to early lump-sum buyouts by workers desperate to cash out while the funds are available. The PBGC this past September ceased this practice. Buyouts were favored initially by the company but won't be offered again until the pension is fully funded.

The PBGC does not insure the money in the 401(k) plans of bankrupt companies. The 401(k) system was set up in 1978 as part of an IRS law to create personally-funded retirement accounts for individual workers. These are generally short-funded, due mainly to hardship withdrawals related to the general fall in workers' standard of living. Often they are at the mercy of poor investment choices contained in their plans, channeling workers' savings into Wall Street pockets. The following graph from the nonprofit Employee Benefit Research Institute illustrates the trend of the private sector companies switching to 401(k) plans from defined benefit pensions to lower their costs.

It is reasonable to expect that retiree benefits will shrink to appease the demand for the lower premiums made by corporations. The PBGC 2012 fiscal report revealed that companies' interests will be considered primarily: "At the President's direction, we've made changes to reform or reduce unnecessary regulatory requirements—and we're planning even more. For sound companies and plans, we're trying to reduce burdens (and premiums) and focus on companies and plans where there's risk."

Recently at a conference in Rochester for Kodak retirees, Carliss Rowe, who had 10 years with the company, said, "It is stressful now, because when you work at Kodak you believe everything is okay for life.