AOL head rolls back pensions, citing Obamacare and cost of “distressed babies”

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AOL chief executive Tim Armstrong has announced that the company will restructure its 401(k) retirement benefits for employees in a way that will significantly reduce employer-matching contributions. AOL will now provide a 50 percent company match on employees’ pre-tax income only at the end of the year, instead of paying the benefit throughout the year.

The details surrounding the company’s decision are a telling example of the contempt that such multi-millionaires executives have not only for their own employees, but for the vast majority of the population that must concern itself with daily living expenses and plans for a secure retirement.

In an interview with CNBC Thursday morning, Armstrong claimed that the Affordable Care Act was forcing the company’s hand. “As a CEO and as a management team,” he said, “we had to decide, do we pass the $7.1 million of Obamacare costs to our employees? Or do we try to eat as much of that as possible and cut other benefits?”

In a subsequent company-wide conference call, he explained to employees the reasoning behind the 401(k) rollback. “Two things that happened in 2012,” he said, according to a transcript provided by an AOL employee and quoted by capitalnewyork.com. “We had two AOL-ers that had distressed babies that were born that we paid a million dollars each to make sure those babies were OK in general. And those are the things that add up into our benefits cost.

“So when we had the final decision about what benefits to cut because of the increased health care costs, we made the decision, and I made the decision, to basically change the 401(k) plan.”

AOL’s action is but the most visible and egregious example of moves afoot by companies to seize on the features of the Affordable Care Act as an opportunity to reduce and restructure employee benefits. As with job cuts and speed-ups, the aim of such cost-cutting measures is to increase profits at the expense of the workforce.

Companies throughout the country are exploiting the fact that Obamacare, which has been intended from the beginning as a mechanism for slashing health care costs, leaves all decisions in the hands of private corporations and insurers. Many corporations are eliminating health care plans outright or cutting back on hours to avoiding having to provide coverage for their employees. Others, like AOL, are simply implementing cuts elsewhere.

CEO Armstrong presents as a given that he had to choose between two poisons to pass on to his employees: increased health care costs or cuts to other benefits. First of all, it is questionable whether the increased costs due to Obamacare amount to $7.1 million, and he does not provide a breakdown. Most large employers carry reinsurance, which could cover a substantial share of big claims in cases of unexpected large payouts.

But even taking the CEO at his word, why should employees foot the bill? On the same morning that AOL announced the change in 401(k) benefits, the digital media and entertainment company reported a 13 percent rise in quarterly revenue. The company’s total revenue rose to a better-than-expected $679 million in the fourth quarter ending December 31, from $599.5 million a year earlier.

Armstrong’s own compensation nearly quadrupled in 2012 to $12.1 million, from $3.2 million in 2011, according to the latest regulatory filing available. In addition to his $1 million salary, this included a $500,000 cash bonus, stock awards of $2.8 million, options of $5.1 million, and a non-equity incentive plan compensation of $2.8 million.

For AOL employees, the shift in benefits means that they will not receive company matching funds throughout the year, and could lose potential earnings on them. If they leave their job any time before December 31—or are fired—they will get nothing. They will also lose one of the only benefits of the 401(k), which is the ability accrue maximum benefits throughout the year and carry those funds at any time to another employer that offers a similar plan.

That Armstrong points to the cost for care of two "distressed babies"—that by his own account amounted to $2 million, 0.3 percent of AOL's fourth-quarter revenues—as an example of the mounting costs driving the change is particularly repugnant. As one person who heard the comments remarked to capitalnewyork.com: "People were just shocked that two particular women would be singled out on a company-wide call" as a justification for slashing benefits.