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Old pensions put out to pasture

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For years, the old-fashioned pension plan served corporate America well, luring generations of lifetime employees to offices, factories and retail stores, and rewarding their loyalty with the promise they'd be cared for in retirement. The longer they stayed, the more they got.

Now, that traditional plan, called the defined benefit plan, itself is being put out to pasture and rather unceremoniously, some workers believe.

A growing number of companies are ditching the old plan which upon retirement provides a fixed monthly income based on length of service and converting to what's known as a cash balance plan. The newer plans have been around since the mid-1980s, but it's only in recent years that an increasing number of companies have switched to them.

In the world of benefits, there is the defined benefit plan, which stays with the employer until the account is accessed after retirement; a defined contribution plan such as a 401(k), which the employee can take with him when he moves to a new job, and the cash balance plan a hybrid combining some features of both.

With the cash balance, employers contribute annually to each "account" based on a set percentage of pay for all participants and each employee's holdings usually accrue the same rate of interest. Employees watch their accounts grow in value just as they do with 401(k)s, and they can take them with them when they leave. But like traditional pension plans, the company decides how the money is invested since the assets are pooled. In a 401(k) plan, the employee directs his own investments.

Depending on whom you talk to, cash balance plans are either a revolutionary new employee benefit or a big corporate rip-off.

Companies say the plans are necessary to recruit younger workers in a highly competitive job market. They deliver benefits more equitably to a changing work force, and in a way employees can better understand and appreciate, they say. Today's mobile workers would get a mere pittance under the old plan, in which the bulk of a worker's benefits are earned in the last years before retirement, they say.

But consumer groups and many longer-term employees argue the cash-balance conversion is simply an unobtrusive way for big business to cut retirement costs and pocket the savings. In fact, some older workers are finding that after the conversion, their retirement benefits are far less than they had counted on under the old plan.

"We're talking about billions of dollar for millions of employees," said William K. Carr, a Denver lawyer representing employees in some class action lawsuits against companies who have made a conversion, "All of them (cash balance plans) in my opinion violate the age discriminate law. They provide a lower rate of benefit accrual for older workers," Carr said.

Many employers involved in pension conversion and roughly 20 percent of Fortune 500 companies now have cash balance accounts concede some of their employees may be hurt by the change. Most, though, have transition plans in place to protect those closest to retirement.

"Employers are very concerned about that issue and are attempting to 'grandfather' older, longer-service employees into the old plans so they do not have the loss of benefits," said Tom Schlossberg, chief executive officer of Diversified Investment Advisers of Purchase, N.Y., a benefits consulting firm.

Some companies allow workers within seven to five years of retirement or over age 55 to stay in the old plan. Others automatically put employees with a certain number of years of service in the plan that pays out the most. Still others have credited the accounts of longer-term employees with a higher percentage of salary.

David Lovelace, a 52-year-old project manager for IBM Corp. in San Jose, Calif., made the transition cutoff after IBM's July 1 conversion. He's within five years of qualifying for earliest retirement at age 55, and therefore, eligible to stay in the old retirement plan if he chooses. And he does.

"No one in their right mind would go to the new plan," if they didn't have to, he said.

His colleague, Nancy Goodenough, a software marketing manager and an 18-year veteran, had no choice. She missed the age cutoff by a year, and says she loses 43 percent of her accrued benefits.

"The amount I would get if I separated from the company on July 1 was $700 per month (upon retirement)," she said. "With the new plan, I'm starting out with $400 a month."

She and other affected workers interviewed say they feel betrayed.

"I was ... so happy that I had the security and the sense of family at IBM. You were basically taken care of, and I think that that's the sense of loss that we feel," Goodenough said. "When they talked about Social Security going away, I used to say, 'I'll always have my IBM pension'."

As many as 50,000 IBM employees are in that vulnerable middle-career category, 30,000 are near retirement and another 50,000 are early career, according to company spokeswoman Jana Weatherbee.

"It (the conversion) will mean different things to different people," she conceded.

"We wanted to attract the industry's best talent so we had to make a change," she explained. "We still have a significant benefit and pension plan (which includes both a pension and 401(k)). Most of our competition doesn't even offer pension plans."

In addition, IBM has said it will save $200 million annually by switching its 141,000 U.S. employees to a cash balance program.

Defined contribution arrangements now account for 60 percent of all employer-sponsored retirement plans, according to a study released last year by New York benefits consultant William M. Mercer. Mercer predicts that figure will grow to 70 percent by the year 2003.

In a 401(k), employees contribute from their own paychecks; employers will often match a percentage of that contribution.

Workers like Sang J. Moon, 31, who has spent two years as a software developer for IBM in Bethesda, Md., have much to gain by a cash-balance conversion. A job-hopper through his high-tech career, he likes the idea of having a growing pension he can take with him.

"I doubt I'll spend 30 to 35 years with IBM," said Moon, who despite his short tenure, started an Internet Web site for IBM employees looking to vent their frustrations about the pension change.

While acknowledging the frustrations of some workers adversely impacted by pension conversion, David Rosenblum, a Mercer principal, points out that no one is actually having money taken out of their pockets. "We're talking about future earnings."

All pension plans are voluntary, he noted, and companies have the right to make appropriate changes to their business plans.

"It's a voluntary pension system and employers can do anything they please," agreed Carr, the attorney. But he says many companies have done a poor job communicating the pension changes to their work force.

"You want employees to know how much they're being paid so they can make a decision to stay with an employer or go someplace else," he said.

President Clinton last week proposed a bill that would require employers to give workers at least 45 days notice for pension plan changes that could reduce their benefits.

A bill sponsored by Sen. Daniel Patrick Moynihan, D-N.Y., would require companies to tell employees how the changeover to a cash balance plan would affect them and give each a personal statement comparing benefits under the old and new plans.

"Most people don't realize what their pensions are," said Karen Ferguson, director of the Pension Rights Center in Washington, a consumer group supporting the disclosure bill.

"But this is employee's money," she said. "It was a recognition ... that the only realistic way of supplementing Social Security for workers who would not save for themselves was through this form of corporate paternalism. That's why they stayed at their companies. Suddenly the rules of the game are being changed."