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Ruling on IBM's Pension Plan Raises More Questions Than It Answers, According to Towers Perrin

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NEW YORK, Aug 4, 2003 (BUSINESS WIRE) -- On July 31, a federal court in the Southern District of Illinois ruled that IBM's pension plan violates age discrimination laws. The court's decision is inconsistent with other federal court decisions and with years of legislative and regulatory history applicable to the U.S. pension system. In its reasoning the court explicitly dismissed the basic principle of the time value of money -- one of the key underpinnings of all pension systems. Although Towers Perrin believes that the decision should ultimately be overturned upon appeal, it is yet another confounding result that points to the need for clarification and modernization of existing pension law and regulations.

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Many large pension plan sponsors in the U.S., like IBM, have gravitated in the last 10 to 15 years toward "hybrid" plan formulas -- defined benefit plans that look in many ways like defined contribution plans. These hybrid formulas, including cash balance plans, have served clear business and social policy needs. They have allowed numerous companies to continue to provide meaningful economic protection to U.S. workers within the context of today's dynamic global business environment and intense competition. Many companies have intentionally chosen to implement hybrid plans rather than defined contribution plans, thereby continuing to provide a floor of economic protection rather than shifting investment and longevity risk completely to their employees and retirees.

"The extent of the migration to these hybrid pension plans shows that the business and legal communities firmly believe that the current U.S. legal and regulatory environment supports these types of plans," said Steve Kerstein, leader of the Global Retirement practice for Towers Perrin. "Nevertheless, we support and encourage the efforts of Congress and federal agencies to clarify the hybrid plan issue. These efforts should discourage wasteful lawsuits so that plan sponsors are more secure in establishing and maintaining these plans."

If this decision were ever to be upheld on appeal and become the accepted legal interpretation, it would make nearly all cash balance and many other hybrid plans illegal, significantly harming the U. S. pension system and millions of plan participants. Some traditional plans could be affected as well. While Towers Perrin believes that the decision should ultimately be overturned, it unfortunately creates uncertainty for plan sponsors and potentially energizes plaintiffs' attorneys. Towers Perrin believes that Congress and the Treasury must act immediately to clarify once and for all that well-designed hybrid plans have always been permissible under current laws. In the absence of this action, Towers Perrin believes that companies that sponsor hybrid plans will evaluate the potential risks and rewards associated with continued plan sponsorship.

Towers Perrin will continue to support its clients, Congress and regulatory agencies as the firm seeks to reach our common objective of a meaningful and financially sound private pension system in the U.S.

Towers Perrin is one of the world's largest management, human resource consulting and administration firms. It helps organizations manage their investments in people to achieve measurable performance improvements, focusing on human resource strategy and service delivery, benefit and compensation design and implementation, employee and organizational communication, HR technology and outsourced administration. Towers Perrin is part of a broader family of businesses that also includes Tillinghast - Towers Perrin, a management consultancy for financial services companies worldwide, and Towers Perrin Reinsurance, a reinsurance intermediary and consultancy. Together, these businesses have over 9,000 employees and 79 offices in 77 cities and 24 countries. More information about Towers Perrin is available at www.towersperrin.com.

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Towers Perrin
Joe Conway, 914/745-4175
joseph.p.conway@towers.com

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