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Memos Sent to IBM Show Awareness Of Pension Moves

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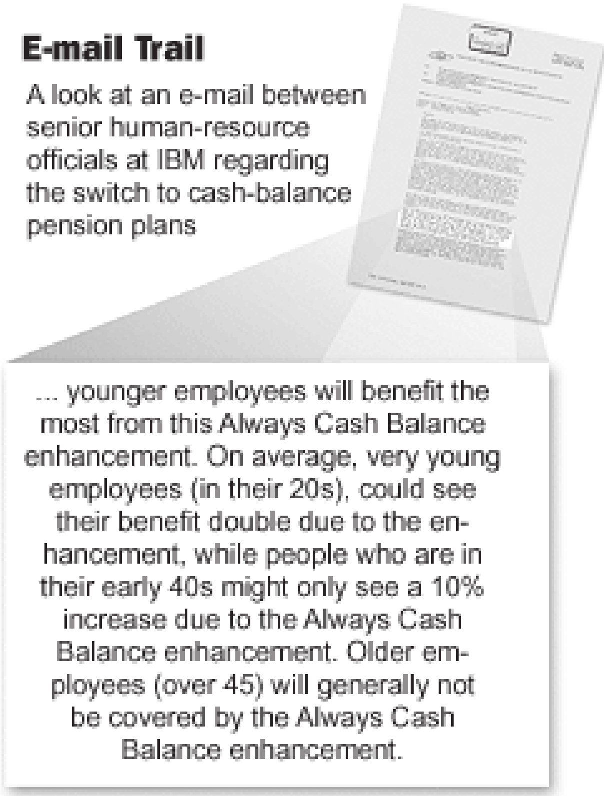
E-mails from benefits consultants to top human-resources executives at **International Business Machines** Corp. in 1999 give a detailed look at how some of the company's pension changes would affect younger versus older workers and perhaps cause thousands of employees to stop building a new benefit for several years.

The memos were exhibits in the court case decided last week, in which a federal judge in the Southern District of Illinois ruled that IBM had discriminated against older workers when it changed to a cash-balance pension plan in 1999. Older employees sued IBM, saying that the new plan provided them with less favorable benefits, and caused some of them to cease building a new pension benefit for a period of time.

The e-mails provide a rare glimpse into the detailed calculations benefits consultants provide employers who are changing their pension plans, and these kinds of calculations could draw scrutiny at a time when the U.S. Treasury is expected to issue regulations that say whether cash-balance plans violate age-discrimination rules in pension law.

In one memo, David Speier, a consultant at Watson Wyatt Worldwide, who is the actuary for IBM's plan, said "younger employees will benefit the most from [an] enhancement. On average, very young employees (in their 20s) could see their benefit double due to the enhancement, while a person who is in their early 40s might only see a 10% increase ... and older employees (over 45) will generally not be covered" by the enhancement, which consisted of additional credits to the opening balance of the account.



"As you can see," the memo continued, the enhancement "is directly related to age. Young employees get the benefit," he said, and "old employees do not." The e-mail was dated May 4, 1999, about two months before the company changed to the new cash-balance pension plan.

Watson Wyatt, which administers IBM's pension plan, helped design and implement pension changes at the company. Benefits consultants typically figure out how pension changes will affect the employees of different ages and salaries, and how much money the changes will save the company.

In a prepared statement, a Watson Wyatt spokesman said: "To put the quote in context, it was part of a lengthy and detailed e-mail that Mr. Speier was writing as the actuary making calculations to address questions about how the plan operates. The purpose of the enhancement was to ensure that younger IBM employees weren't disadvantaged in the conversion. Older workers at IBM already had the benefit of this enhancement in their prior plan. This approach was sanctioned and recommended by [Internal Revenue Service] guidelines. We believe that IBM's cash-balance plan is fair and equitable to all employees."

IBM spokesman Bill Hughes says, "What we were trying to do was spread the benefit across the employees in an age-neutral way."

Another consultant, Scot Martin, a principal at Mercer Human Resource Consulting, prepared tables that showed estimates by Mercer and Watson Wyatt of how many employees would cease to build a pension temporarily after the new cash-balance plan formula was adopted. In one table, Mercer estimated that out of a total of 138,600 participants, 28,300 employees would cease to earn a benefit for one to five years following the conversion.

Older employees at many companies have complained that after a change to a cash-balance plan, they stop building a benefit for a period of time -- a situation called "wearaway" -- because their opening account balance is worth less than the benefit they have already earned. As a result, their pension doesn't grow in value until their account grows with pay credits and interest.

A spokeswoman for Mercer points out that the employees would continue to earn lump-sum benefits and increases in retirement annuities, and adds that the figures refer only to annuity benefits payable prior to retirement. Mercer declines further comment.

The memo, dated Sept. 23, 1999, was prepared after employee complaints about the cash-balance plan had triggered congressional hearings and the company had changed its policy to allow a broader group of workers to choose to stay in the prior plan. The memos were comparing the numbers of people who would be affected by wearaway now that 67,800 could choose the old plan, instead of only 34,300.

A Jan. 10, 2000, memo written by Kathleen Roin, director, IBM world-wide retirement programs, describes ways that wearaway can happen in IBM's plan, even though employees' account balances grow with pay credit, interest credits and, if applicable, transition credits.

In one example, "Meg," a 44-year-old employee with 14 years of service, will have a benefit that is reduced by 47%, because she loses the value of an early-retirement subsidy existing in the prior plan, but unavailable to her in the new plan under certain conditions. Her initial account balance would purchase an annuity of only $3,112 a year, rather than an annuity of $5,795 under the old formula.

If Meg left immediately after the pension-plan conversion, on July 1, 1999, she would be entitled to her entire $5,795 benefit, which is protected under law. But if she stays, "it will take some time before the account balance grows enough so that the annual pension it provides is greater than Meg's July 1, 1999, "frozen" pension benefit -- this is the wearaway period."

Mr. Hughes, the IBM spokesman, says that "At no time ever in IBM's history has any IBM employee lost a penny of the pension benefit they had earned," and adds that the memos and e-mails were part of the planning process. " We talked to a number of outside experts on the potential impact of our plan changes, and these documents are scenarios. They were asked to comment on the scenarios."

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