



## Are pensions destined for retirement?

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The weather is warming up, but watch out—your pension could be frozen. A pension freeze means that the assets already in your plan will be paid out when you retire or leave the company, but new benefits do not accrue as you stay on the job. In some cases pensions are closed only to new employees, but in others they are frozen for some or all existing employees, too. Legally, companies can freeze pensions at any time, unless the move violates a collective bargaining agreement with a union.

Many companies introduce a 401(k) plan or enhance their existing one to replace a defined-benefit pension plan. "Recent research has found that when a traditional pension is frozen, many workers in the pension are unlikely to get an equal benefit value contributed to their 401(k) plan," says Jack VanDerhei, a Temple University professor and a fellow at the Employee Benefit Research Institute (EBRI). "Each case is different, but it's clear that people currently working should factor into their retirement planning the long-term trend away from traditional defined-benefit pensions toward 401(k)-type plans."

And it's not just financially struggling companies like General Motors and Northwest Airlines that are putting pension plans on ice. Healthy companies such as Coca-Cola Bottling Co. and Ferro are freezing their defined-benefit plans and replacing them with 401(k)'s. Many companies freeze pensions in an effort to cut compensation, citing competition from companies in countries where the government provides many pension benefits and from U.S. companies that don't offer defined-benefit plans. Companies also freeze pensions to eliminate the risk that they won't be able to fulfill their obligations, as employees live longer and draw benefits, sometimes for decades, in retirement. Those payouts, plus soaring healthcare costs for current employees and retirees, put pressure on profits.

Once an employer has decided to freeze a pension program, you have little recourse, but there are some things you should be thinking about.

**Get it in writing.** If your employer wants to freeze your pension plan, you must be notified in writing at least 15 days before the termination date, according to the [Pension Benefit Guaranty Corp.](#), a government entity created by Congress in 1974 to encourage the continuation of private-sector defined-benefit pension plans. This should give you time to determine exactly what benefits you have accrued.

**Assess what you're getting.** Find out what your employer is offering to make up for your frozen pension. Companies often will increase their matching contribution to a 401(k) plan, for instance. If you are in your 20s or early 30s, you might actually be better off if your pension is frozen and your employer makes a generous contribution to your 401(k), says VanDerhei. Later in your career, the effect on your retirement finances will depend on the provisions of your plan and the rate of return you're getting on your investments.

**Make up for what you're losing.** A recent EBRI analysis found that workers with so-called career-average pension plans, which calculate retirement benefits based on the average salary over your entire career, have to save about 7 percent of their annual salary and make an 8 percent yearly return on that money to replace the accrued benefits lost in a pension freeze. Workers with a final-average pension plan, which sets retirement benefits based on your average salary in your final years with the employer, have to save 8 percent of their annual salary (and earn 8 percent) to make up for the pension freeze. The contribution rate is higher, of course, if your money earns a lower rate of return. However, you should do an analysis based on your specific financial situation. "Employees should contribute as much as possible [to a 401(k)] and in all cases contribute enough to enjoy the full employer match," says Andrew Eschtruth, associate director for external relations at Boston College's Center for Retirement Research.

**Don't expect pension freezes to defrost.** The [Financial Accounting Standards Board](#) is proposing a new method of accounting for pension funds. It would require companies to measure the value of their pension funds on the same date they calculate all their other corporate obligations and also to report pension values on their balance sheets, with all other assets and liabilities, instead of burying the information in the notes of financial statements. Companies with large pension obligations will show much more debt under the new rule than they have in the past. So, even well-funded companies are going to have to think seriously about continuing to sponsor pensions, says VanDerhei.

Employees and retirees at companies like Verizon and IBM have websites where employees can communicate with one another and organize to protect their pensions, but the chances of halting pension freezes are slim. "Given that the employer-sponsored pension system is a voluntary arrangement, nothing is likely to stop other healthy companies from following suit and closing down their defined-benefit plans," says Eschtruth.