

More employers doing away with pensions, study finds

The swift demise of traditional plans catches some analysts by surprise. 'This is a watershed event,' one expert says.

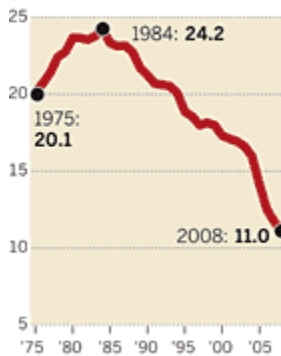
By Peter G. Gosselin, Times Staff Writer
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WASHINGTON — Nearly two-thirds of employers that offer traditional pensions have closed their plans to new hires or frozen them for all employees, or plan to do so in the next two years, according to a study released Tuesday.

The latest numbers show an acceleration in the decline of pensions — retirement plans in which employers, instead of employees, are responsible for investing retirement money and providing benefits. They also illustrate that the trend is no longer confined to troubled industries such as steel, auto and airlines, but now involves healthy companies such as IBM and Verizon.

Vanishing

Participants in traditional pension plans in the U.S.
(In millions)



Data for 2005-2008 are estimates.

Sources: Department of Labor;
Employee Benefit Research Institute survey

Los Angeles Times

Analysts have known for some time that the number of employers shutting or freezing their pension plans was on the rise. But the sharpness of the increase caught some by surprise.

"This is a watershed event," said Jack VanDerhei, a Temple University pension specialist. "There has been a steady decline in traditional pensions for two decades, but the trend is really accelerating, and it's going to accelerate even more."

The survey by the industry-supported Employee Benefit Research Institute and Mercer Human Resources Consulting shows that most companies that close off their pensions seek to partially offset the loss to employees by increasing contributions to firm-sponsored 401(k)s, where employees are responsible for

managing their own retirement money.

But critics say the increases do not make up for the demise of pensions.

The offsetting benefits of 401(k)s "are not measuring up," said David M. Certner, legislative policy director for AARP, the giant services and lobbying organization for senior citizens. "There are a lot more ways people can get tripped up with 401(k)s than with traditional pensions."

The pickup in the pace of pension closures and freezes is particularly surprising because employers seemed to have weathered the worst of their financial problems several years ago.

During the booming 1990s, a rising stock market raised the value of plans' investments so much that collectively the plans had to contribute only about \$30 billion a year to ensure they could meet their obligations to future retirees.

But in 2000, two things happened: The stock market crashed, slashing the value of investments, and interest rates sank. Declining interest rates reduced the return on their investments, forcing the plans to set aside more funds to meet future benefit obligations.

The combination raised the amount that plans collectively had to set aside to about \$90 billion a year, and dramatically increased the number of plans that were considered "underfunded" and unable to meet their future obligations.

But the number of underfunded plans has come down in the last four years and, by some measures, the pension system as a whole is back in financial balance, analysts say.

Paradoxically, one of the key items that has pushed employers into the new rush to get out from under their pension burdens is a law approved by Congress last year that was designed to stabilize the pension system

Employers quizzed by EBRI and Mercer cited the law, the Pension Protection Act, in explaining their actions.

Nearly 30% of those who said they planned to freeze or close their plans in the next two years cited uncertainty about the law as contributing to their decisions. More than half said their belief that the law would raise costs was key to their decision.

"Companies hate uncertainty, and this law has created a lot of uncertainty," said Mauricio Soto, a research economist with Boston College's Center for Retirement Research.

The new survey found that 25% of employers questioned had closed their pensions to new hires within the last two years, whereas 12.9% had frozen their plans for all employees. The survey found that more than 30% of employers expected to make similar changes in the coming two years. The survey questioned 162 employers, including some of the nation's largest companies, according to the study's statistics.

The acceleration of pension freezes and closures raises anew the question of whether the 77-million-strong baby boom generation is financially ready to retire.

Some recent studies have suggested that baby boomers are not as ill-prepared as previously suggested, and that a combination of pensions, 401(k)s and home equity, together with Social Security, would see them through old age.

But EBRI analysts suggested those studies might need to take a fresh look in light of the new survey's results.

"It appears that any careful analysis of retirement income adequacy ... must be modified substantially to factor in the extraordinary plan changes among [pension] sponsors in the last few years," analysts said.

"What you're seeing is the slippage of the middle class," said Certner of AARP. "Their retirement benefits are much smaller than those of the previous generation that had traditional pensions."

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