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More Companies Ending Promises for Retirement

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By [MARY WILLIAMS WALSH](#)

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The death knell for the traditional company pension has been tolling for some time now. Companies in ailing industries like steel, airlines and auto parts have thrown themselves into bankruptcy and turned over their ruined pension plans to the federal government.

Now, with the recent announcements of pension freezes by some of the cream of corporate America - [Verizon](#), Lockheed Martin, [Motorola](#) and, just last week, [I.B.M.](#) - the bell is tolling even louder. Even strong, stable companies with the means to operate a pension plan are facing longer worker lifespans, looming regulatory and accounting changes and, most important, heightened global competition. Some are deciding they either cannot, or will not, keep making the decades-long promises that a pension plan involves.

I.B.M. was once a standard-bearer for corporate America's compact with its workers, paying for medical expenses, country clubs and lavish Christmas parties for the children. It also rewarded long-serving employees with a guaranteed monthly stipend from retirement until death.

Most of those perks have long since been scaled back at I.B.M. and elsewhere, but the pension freeze is the latest sign that today's workers are, to a much greater extent, on their own. Companies now emphasize 401(k) plans, which leave workers responsible for ensuring that they have adequate funds for retirement and expose them to the vagaries of the financial markets.

"I.B.M. has, over the last couple of generations, defined an employer's responsibility to its employees," said Peter Capelli, a professor of management at the Wharton School of Business at the University of Pennsylvania. "It paved the way for this kind of swap of loyalty for security."

Mr. Capelli called the switch from a pension plan to a 401(k) program "the most visible manifestation of the shifting of risk onto employees." He added: "People just have to deal with a lot more risk in their lives, because all these things that used to be more or less assured - a job, health care, a pension - are now variable."

I.B.M. said it is discontinuing its pension plan for competitive reasons, and that it plans to set up an unusually rich 401(k) plan as a replacement. The company is also trying to protect its own financial health and avoid the fate of companies like [General Motors](#) that have been burdened by pension costs. Freezing the pension plan can reduce the impact of external forces like interest-rate changes, which have made the plan cost much more than expected.

"It's the prudent, responsible thing to do right now," said J. Randall MacDonald, I.B.M.'s senior vice president for human resources. He said the new plan would "far exceed any average benchmark" in its attractiveness.

Pension advocates said they were dismayed that rich and powerful companies like I.B.M. and Verizon would abandon traditional pensions.

"With Verizon, we're talking about a company at the top of its game," said Karen Friedman, director of policy studies for the Pension Rights Center, an advocacy group in Washington. "They have a huge profit. Their C.E.O. has given himself a huge compensation package. And then they're saying, 'In order to compete, sorry, we have to freeze the pensions.' If companies freeze the pensions, what are employees left with?"

Verizon's chief executive, Ivan Seidenberg, said in December that his company's decision to freeze its pension plan for about 50,000 management employees would make the company more competitive, and also "provide employees a transition to a retirement plan more in line with current trends, allowing employees to have greater accountability in managing their own finances and for companies to offer greater portability through personal savings accounts."

In a pension freeze, the company stops the growth of its employees' retirement benefits, which normally build up with each additional year of service. When they retire, the employees will still receive the benefits they earned before the freeze.

Like I.B.M., Verizon said it would replace its frozen pension plan with a 401(k) plan, also known as a defined-contribution plan. This means the sponsoring employer creates individual savings accounts for workers, withholds money from their paychecks for them to contribute, and sometimes matches some portion of the contributions. But the participating employees are responsible for choosing an investment strategy. Traditional pensions are backed by a government guarantee; defined-contribution plans are not.

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