

Create A Pension Backup Plan

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Many large US corporations that once guaranteed generous pension checks and healthcare to retirees are cutting back such benefits. Delphi Corporation recently announced they are freezing their pension plan, meaning they are capping employees' future retirement benefits based on the benefits they have earned so far. Some retired Delphi Executives have had a significant portion of their pension income cut. General Motors announced last year that salaried employees currently accruing pension benefits would accrue reduced future benefits under a new formula. Ford will stop providing health insurance for Medicare-eligible salaried retirees over age 65 starting next year. Most automakers no longer even offer new hires a traditional pension plan or retiree health benefits.

But the automakers are not leaving employees out in the cold. Along with these changes to the traditional pension plan and other retiree benefits, the companies announced improvements in the employees 401(k) plan in each case. As of January 1, 2007, GM salaried employees enjoy a \$0.50 company match on each dollar of salary contributed to their 401(k) plan up to 4% of eligible income. Ford salaried employees now receive a \$0.60 company match on each dollar of salary contributed to their 401(k) plan up to 5% of eligible income. Next year Delphi active salaried employees will start receiving a company contribution equal to 4% of salary and company matching on employee contributions in a new 401(k) plan as compensation for cutbacks in the pension plan.

There are clear advantages to receiving retirement benefits through a 401(k) plan rather than a traditional pension plan. In a 401(k) plan, you control the assets, which means you can manage them relative to your goals and personal situation as well as determine how you want to receive those assets as income in retirement. Another advantage, you can take your 401(k) with you if you leave the company. Assets in a pension plan are always at risk if the pension is handed over to the Pension Benefit Guarantee Corporation (PBGC). (The PBGC is the government agency that may end up administering a pension plan because of a bankruptcy or other problems.) In this event, the generous pension benefits provided by the automakers and many auto suppliers would most certainly be reduced.

Indeed, the argument can be made that employees may very well be better off receiving retirement benefits through their 401(k) rather than through traditional methods. However, with a 401(k) plan, it is incumbent upon the employee to make the most of it to ensure a secure retirement.