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GM freezes salaried pensions

401(k) funding to be increased

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DETROIT - General Motors on Tuesday became the latest major U.S. employer to freeze and convert its traditional pension plans that give retirees a set monthly check to a system in which the company makes a set contribution to supplement worker-controlled savings.

Essentially, the moves shift more retirement investment risks and responsibilities to the shoulders of employees and cut the amount they can expect to be paid under the old plans.

They also reduce costs and paperwork for GM.

"This underscores the importance of defined-contribution plans, such as the 401(k)," said David Kudla of Mainstay Capital Management in Grand Blanc.

For a fee, Mainstay helps employees of the Big Three, Delphi Corp. and other companies manage their 401(k) balances and make investment decisions.

"We are seeing this with all companies," Kudla said of the freeze and pension changes. "Companies are moving away from or scaling back on defined-benefit plans."

Effective Jan. 1, 2007, GM will freeze the accrued pension benefits for about 42,000 U.S. salaried employees and put them into new plans, a tactic many large companies are using to trim soaring pension costs.

The change won't affect retirees or workers represented by the UAW.

Salaried employees hired on or after Jan. 1, 2001, will move to a 401(k) plan. Such workers now have a cash balance plan, which works somewhat like a traditional defined benefit plan but allows participants to collect their benefits in a lump sum at retirement instead of in monthly checks.

Newer employees will continue to earn interest on their cash balance plans. They also will get a monthly contribution of 4 percent of their salary to their 401(k) program, which is expected to cost GM $15 million each year.

Salaried employees hired before Jan. 1, 2001, will remain in a defined benefit plan but will get reduced benefits under a new formula that pays them 1.25 percent of their average monthly pay per year of service. A separate plan for executives - known as a Supplemental Executive Retention Plan, or SERP - also will be frozen and aligned more closely to the new plans, GM said.

About 90 percent of GM's U.S. salaried employees were hired before Jan. 1, 2001, spokesman Jerry Dubrowski said.

GM also will reinstate a matching plan for employees' 401(k) contributions. The company will match half of what all U.S. salaried employees contribute up to 4 percent of their base salary.

The automaker had matched 20 cents for every dollar employees contributed up to 6 percent of base salary until Jan. 1, 2006. GM said reinstating the matches will cost $70 million annually before taxes.

GM announced last month it would alter its salaried retirement plans to reduce pension costs. The changes are expected to reduce its year-end 2006 pension liability by about $1.6 billion and its 2007 pension expenses by $420 million before taxes, including the 4 percent contribution for newer employees and the reinstated 401(k) match,

The company's net savings will be about $335 million in 2007, Dubrowski said.

GM is the latest large employer to shift from a classic pension plan. Earlier this year, International Business Machine Corp. froze its pension plans and began contributing more to employees' 401(k)s.

It's part of a national trend in which companies have been dumping or massively modifying their pension plans to cut current and future obligations.

Pension experts say that while companies often sweeten their 401(k) match when modifying old pension plans, the match can be easily snatched away in the future if companies hit further financial problems.

That's been true for GM salaried workers in the past, as the 401(k) match has fluctuated with the company's fortunes.

GM rival Ford already has made the change. At Ford, employees hired on or after Jan. 1, 2004, have a defined contribution plan.

GM Chairman and Chief Executive Rick Wagoner said the automaker is competing with non-U.S. companies whose pension benefits are more heavily subsidized by their governments, putting GM at a huge disadvantage.

According to published reports, Wagoner's SERP plan will be worth as much as $4.6 million a year when he retires, nearly twice his current salary.

The automaker lost $8.6 billion in 2005 as it continued to struggle with falling U.S. market share and rising health care and pension costs. GM's total pension liability is $89.3 billion.

"These changes will reduce financial risks and future costs for GM, while protecting current retirees' and employees' earned pension benefits and providing competitive and fair retirement benefits going forward," Wagoner said in a statement.