

April 17, 2003

## HEARD ON THE STREET

# Companies Use Cash for Growth To Boost Sagging Pension Funds

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Companies in the Standard & Poor's 500-stock index poured \$46 billion into their pension plans last year, three times more than the year earlier, according to a new study by Credit Suisse First Boston.

Thanks to continuing stock-market declines that have shrunk pension assets, S&P-500 companies could spend as much again this year to top up pension plans, which provide guaranteed benefits to retired workers, according to David Zion, the report's author.

The report comes on the heels of a move Tuesday by credit-rating agency Standard & Poor's to put 13 companies on watch for possible credit downgrades related to concerns about pension obligations. The worry: Companies may have to dedicate cash to fund their pension plans that otherwise could be used for investments to drive growth.

According to the CSFB study, which looks at the 360 S&P-500 companies that have pension plans, the \$46 billion of 2002 contributions represented 6% of the total cash flow from operations. For 10 companies, the amount spent represented 40% or more of operating cash flow.

At the high end, pharmaceuticals company **Wyeth** poured \$910 million into its pension plan, or almost five times its \$186 million cash flow from operations. Insurer **St. Paul Cos.** contributed \$158 million to its plan, while operating cash flow was \$129 million.

A Wyeth spokesman said the operating cash-flow figure doesn't reflect \$4.2 billion of cash the Madison, N.J., company received last year from the sale of a business in which it held a substantial stake. As a result of that cash infusion, Wyeth's pension plan is now "fully funded." A spokeswoman for St. Paul declined to comment on the plan's current funding status or expected contributions.

Mr. Zion estimates that S&P-500 companies in aggregate this year will be required to contribute \$29 billion, assuming that pension-plan assets show an investment return of 8.5%, but the total could be much greater when factoring in voluntary contributions.

## PENSION PAIN

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When companies are obligated by federal pension rules to make contributions, they are allowed to do so incrementally, over three to five years. But topping up plans voluntarily is attractive for a variety of reasons, including tax ones.

Of course, if the stock market rallies and interest rates rise, that would ease the need for contributions. But with few market watchers expecting a robust recovery any time soon, concerns persist over whether pension plans have sufficient funding. At the end of 2002, the S&P 500 universe faced a \$216 billion shortfall, the first time the group's pension plans had been underfunded since 1993.

Among companies that experienced the biggest dollar drops in the funding of their plans were car makers **Ford Motor Co.** and **General Motors Corp.**, as well as **Verizon Communications Inc.**, the nation's largest local-phone company, each of which saw declines of more than \$10 billion.

A spokesman for Ford said the Dearborn, Mich., company accelerated planned payments and has added \$1 billion to its pension plans this year. "We think our pension fund is very manageable," the spokesman said, noting the company has no mandatory contributions until 2007. Similarly, General Motors has contributed more than \$1 billion this year, and a spokeswoman said the Detroit company is "aggressively addressing" the shortfall.

Despite the drop in assets at Verizon, the New York company had a \$768 million pension surplus as of year-end 2002. "Despite three years of very weak equity markets and extra costs associated with employee severance as we have been downsizing, our pension system remains healthy," a Verizon spokesman said. "We don't anticipate having to make a significant cash contribution to our plans this year."

Because returns on assets are factored into net income, another concern for investors is that corporate earnings can suffer. Because accounting rules attempt to smooth short-term earnings fluctuations, analysts warn the impact of declining markets has yet to be fully felt. Many companies are still factoring in gains from the bull market of 1990s; CSFB identified nearly 100 companies that last year reported pension income, including 17 for which it constituted 15% or more of 2002 net income. Accounting rules allow companies to claim the pension-fund investment returns as net income even though pension assets belong to pensioners, not stockholders.

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*Updated April 17, 2003*