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Executives Get Pension Security While Plans for Workers Falter

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A number of large companies are setting aside millions of dollars to protect pensions of top executives, even as they forgo contributions to financially strained pension plans for other workers.

The issue of inequity in pension plans is heating up in the airline industry, amid recent disclosures that AMR Corp., Delta Air Lines and UAL Corp. had poured millions into special pension trusts for executives. That angered workers who have seen their own pension plans ravaged by weak stock markets and low interest rates. At AMR's American Airlines, employee outrage over the issue is threatening delicate labor talks that are crucial to keeping the company from filing for bankruptcy protection.

Some other companies that also have established such pension trusts for executives include Motorola Inc., Owens-Illinois Inc., TXU Corp., Altria Group Inc. (formerly Philip Morris), and Abbott Laboratories, according to regulatory filings.

Companies that contribute to pensions for executives -- while choosing not to fund regular pensions -- aren't breaking any laws. Federal rules require companies to make minimum contributions if their pension plans become excessively underfunded. That occurs when liabilities exceed assets by too great a margin as defined by the Internal Revenue Service. But companies can coast for years with pensions that have just two-thirds or three-quarters of the money they would need to pay their future obligations.

The practice illustrates the growing gap in retirement security between most employees and those at the very top. As senior executives rely more on their special pensions, they have less incentive to ensure that the regular pension plan offers adequate benefits -- or is adequately funded. Executives' special pensions also are increasingly being sheltered from their companies' financial troubles, including bankruptcy.

Last year, for instance, Motorola's pension plan that covers more than 70,000 employees and retirees was underfunded by \$1.4 billion, the company's regulatory filings show. Although Motorola didn't add any money to help bridge this gap, the company did contribute \$38 million to a special pension fund, with assets

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of \$135 million, for an undisclosed number of top executives. A Motorola spokeswoman said the telecommunications-equipment maker plans to put \$200 million into its pension plan this year.

It can be difficult for employees and shareholders to compare the funding levels of regular pensions and executive pensions. In their annual reports, companies must disclose pension assets and liabilities, company contributions and other details. But when it comes to executive pensions, companies are required to disclose the existence of trusts they set up only for the top five officers, and not the amount of money in them or other details.

For example, TXU, a Texas utility, notes in its 2002 annual report that its pension for 30,000 employees and retirees was underfunded by \$424 million at the end of 2002, and that the company contributed only \$28 million to the plan in that year. However, other filings note that the company has established special trusts for executive pensions.

A TXU spokeswoman says the company hasn't made any contribution for two years to the executive trust, which benefits a current employee and two retirees. She said the trust, which is fully funded, has performed better than the company's pension plan because it is invested largely in bonds. The pension plan, with greater exposure to stock markets, is 90% funded, she said.

Similarly, **Fortune Brands Inc.**, whose businesses include Master Lock and Jim Beam bourbon, provides four top executives -- including Chairman and Chief Executive Norman H. Wesley -- with secured trusts for their special retirement benefits but doesn't disclose how much money is in the trusts. Fortune Brands' annual report shows that in 2002 the Lincolnshire, Ill., company contributed only \$16 million to the regular pension plan, which was underfunded by \$226 million, or about 27%, under generally accepted accounting principles.

A Fortune Brands spokesman said the pension plan is fully funded, if one uses a less conservative measure employed by the IRS.

Although the IRS legally determines how much companies must contribute to pension plans, investors typically focus on GAAP measurements as a truer reflection of a company's future pension obligations.

Special supplemental pensions for top executives aren't new. But as they have grown larger, and the economy has grown shakier, companies have been taking more steps to make sure the executives get their money. In the past, executive pensions were paid from the general assets of a company, so if it went into bankruptcy, executives would have to get in line with other creditors. Now, with these secured trusts, selected executives own the money, whatever happens.

Executive pension trusts can be costlier than regular executive pensions, for which taxes are deferred under U.S. tax law. So some companies pay not only the benefits to the trusts, but also the taxes the executives owe on that money.

Owens-Illinois, a container maker in Toledo, Ohio, spent \$290,169 last year to pay the taxes due on pension contributions for Chairman and Chief Executive Joseph H. Lemieux, which went into a special trust on his behalf, according to company regulatory filings.

The company declined to say how many executives participate, or how much money is in the trusts. However, filings show that the company contributed nothing to its pension plan for regular employees and retirees in 2002, although the plan is underfunded by \$269 million, with total obligations of \$2.7 billion. Owens-Illinois, which had nearly 32,000 workers in 2002, declined to comment.

A more common way companies fund executive retirement benefits is to buy life insurance. **Steelcase Inc.**, a maker of office furniture, has put \$161 million into life-insurance policies that it says fund executive retirement benefits and other unspecified employee benefit obligations, regulatory filings show. The company has total executive-pension obligations of \$16.4 million. Meanwhile, Steelcase has for several years contributed only about \$6 million a year to its employee pension plan, which is underfunded by \$30 million, according to its latest filing. Steelcase declines to say how many people participate in the regular or executive pension plans, but the company employed more than 19,000 world-wide in 2001.

From an executive's perspective, Steelcase's arrangement is less secure, because the company still owns the money in the policies. If the company were to go bankrupt, they'd lose their benefits. That's what happened to many executives at Enron Corp. who participated in the company's similarly unsecured deferred-compensation plan.

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