

IBM to close final salary pension schemes by back door says Amicus

We have now had the opportunity to have a first look through the pension scheme changes announced by IBM on Friday 27 January.

Whilst the company did not announce the formal closure of its final salary pension schemes as widely predicted, the pension changes announced to its UK workforce will slash the pensions earned to date by employees over time. These changes are aimed at forcing people to leave the final salary schemes by exerting financial pressure on people to join a money purchase scheme instead.

In our view IBM is seeking to close its final salary pension schemes by the backdoor. The pension scheme changes involve making only two thirds of any future salary increase pensionable, and will progressively erode the future pension of employees remaining in the final salary schemes leading to their eventual closure.

This will affect both younger people expecting promotion and also older people

with limited future career expectations and substantial past service.

Our calculations suggest that employees could be worse off by anything between 10 and 40%, dependent on salary, age and present and future service. Someone on £30,000 with 20 years to retirement could have their pension slashed by nearly a quarter, the equivalent of over two years salary.

The key variables in determining how much a person loses would appear to be the length of time between the new policy applying and the member retiring (or leaving) the scheme and the rate of increase in their salary.

The Amicus Pensions Officer, Bryan Freake, has done some calculations on three bases

- A. 3% p.a - slow salary growth - i.e marginally above inflation
- B. 4% p.a - average salary growth - i.e close to national average earnings
- C. 5% p.a - higher salary growth - assuming a promotional career

For each of these scenarios we have considered people with 30, 20, and 10 years to go to retirement

The table expresses the percentage reduction in their expected pension as a result of the application of this policy

Years of future service	30	20	10
Future salary growth			
3%	26%	18%	9%
4%	32%	23%	12%
5%	38%	27%	15%

For example if a member with a salary of £30,000 who was aged 40 and had ten years past service and 20 years to go to retirement and who anticipated average 4% salary growth, the pension loss would be:

$30/60 \times £30,000 = £15,000$ - current expectation

with changes, pension reduced by 23% = £11,625 - yearly loss of £3,375

pension loss, assuming annuity factor of 20 this = £67,500 over lifetime

The loss figures would vary in direct proportion to salary level

One issue to note in relation to people with low salary rises and longer past service is that they might very easily end up with increases in pensionable pay which were consistently lower than inflation. This could leave them in a worse position than if they opted out of the scheme, as if they did they would get full inflation proofing of their deferred Defined Benefit pension plus any benefits as would be earned in the Defined Contribution framework. This change renders the scheme much less attractive for a wide range of members whether younger and expecting promotions or older with limited future career expectations and substantial past service.

Members would need to take financial advice before deciding whether to stay in the scheme or not

There is a possibility that the schemes could be closed simply by members opting out.

These pension changes represent a tax on old age affecting the highly skilled IBM UK workforce for years to come. This is a war on talent.

The IBM Chief Executive stands to receive an annual pension higher than Sven Goran Eriksson's annual salary.

What you can do

IBM is taking advantage of the powerless position of employees in the UK – that's why people in IBM need a union.

Whilst these changes may largely affect those people currently in the defined benefit/final salary schemes, it is inevitable that other competitors will seek to undercut IBM in response, and we will be faced with a 'race to the bottom' as IT companies compete to cut pension benefits and costs against each other.

It is worth noting that IBM is unwilling to give a commitment to the Pension Trustees that there will be no further changes to pension benefits.

IBM has a whole battery of expertise in the form of lawyers, accountants, actuaries, management consultants, and PR professionals. Internally based consultative bodies do not have access to the required expertise or wider knowledge.

This is a wake up call for IBM employees to join a union like Amicus. Only a collective approach can put pressure on the company.

Alone you are alone.

Amicus will be doing everything in our power to retain decent pensions provision for IBM employees.

Please pass this on to your work colleagues through whatever means possible.



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