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GM freezes salaried pensions

New plan may include 401(k)s or lump sum payment at retirement for white-collar staff.

Christine Tierney / The Detroit News

As part of an all-out effort to slash costs, General Motors Corp. will join the swelling ranks of American companies that no longer guarantee yearly pensions for white-collar workers.

CEO Rick Wagoner said Tuesday that the automaker would freeze the benefits accrued to its 36,000 U.S. salaried employees and introduce new terms.

The new plan, which GM will unveil in March, could include a defined contribution or cash balance plan -- both of which would ease GM's load.

"It's another domino falling in the shift away from traditional defined-benefit plans toward cash balance and defined-contribution plans," said James Wooten, an expert on pension-fund planning at the University at Buffalo School of Law.

In contrast with traditional defined-benefit plans, which guarantee an annual pension for a retiree's lifetime, cash-balance plans promise employees a lump sum at retirement.

In a typical cash balance plan, an employer contributes a set amount annually and bears all of the investment risk.

Increasingly popular defined-contribution plans, such as 401(k) plans, require contributions from employees and make them responsible for the investment decisions.

"The objective is to take risk out of the business -- and this is one area of risk," said

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What happened?

GM slashed its quarterly cash dividend 25 cents a share and cut salaries of top executives by 10 percent to 50 percent. It is revising pension and health care plans for white-collar employees and retirees, with the health changes expected to cut GM's long-term obligations by \$4.8 billion. It also cut the compensation of outside directors in

Why did it happen?

GM needs to cut costs and save money. The automaker lost \$8.55 billion last year, losing about \$23 million a day because

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Toni Simonetti, a GM spokeswoman. Along with fully-paid health care, traditional pensions "are not a benefit that makes sense in this kind of competitive global economic climate," she said.

The options that GM is now studying still provide employees with retirement funds, said Chas Chandler, managing director at Amherst Partners LOC, an investment banking firm in Birmingham. "But they get the company out of the obligation of a guaranteed return."

In the 1950s, most large U.S. companies offered their employees annual pensions.

A shift toward defined-contribution plans began after they were created in section 401(k) of the Internal Revenue Code of 1978.

"You don't see a lot of defined-benefit plans any more," said Deborah Thompson, a principal at the law firm of Miller Canfield. "You see very little in the small and mid-sized companies. The thinking was, the big companies could afford them, but now they're trying to dump them."

Like the auto industry, airlines have struggled to compete against lower-cost rivals, in part because of burdensome retiree benefit obligations.

Bankrupt Northwest Airlines won court approval early this month to freeze pilots' pensions.

Part of the trouble for employers, Thompson said, "is that the funding is so erratic. Some years you can have no contribution and some years you can have a huge contribution," depending on the IRS rules and financial market fluctuations.

Richard Dreist, a retired GM manager, said he wasn't surprised by the changes -- not affect already-retired workers.

"It's what other major manufacturers are doing," he said. "It's just not as good as it be."

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slumping U.S. sales and uncompetitive operating costs. The automaker has a \$20 billion in cash, but because of losses burning through it fast. According to Jerry York, GM has enough cash to last 90 days, assuming it receives about \$11 billion controlling stake in GMAC.

What's the impact?

GM shareholders will receive smaller dividends when the automaker's next dividend is paid in March. That could curb consumer spending in Metro Detroit and other regions with high concentrations of GM shareholders as White-collar retirees will eventually see more health care expenses; current employees will see changes in their pension plans.

What's next?

GM will disclose changes to its U.S. pension plan early next month. The plan is likely to be frozen and replaced with a contribution or cash-balance plan. The automaker may seek similar changes in other countries. GM, Delphi and the UAW must agree on how to aid the bankrupt automaker. With Jerry York now a director, GM must bolder turnaround steps. And GM must buy a stake in GMAC.

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