AT&T sees hefty charge on pension accounting change

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NEW YORK - AT&T Inc <T.N> plans to report a $2.7 billion non-cash charge for the fourth quarter due to a pension-related accounting change aimed at making its numbers more transparent for investors.

The telephone operator said on Thursday that it would recognize gains and losses from its pension and other post-retirement benefits in the year in which they are incurred instead of amortizing them over a number of years.

The goal of amortizing losses or gains over several years is generally done to avoid big swings in any given year.

Despite the hefty charge and possibility for more volatility in the company's earnings reports, investors will likely welcome the change, which would make pension gains and losses easier to evaluate, said Piper Jaffray analyst Christopher Larsen.

"It's good news for AT&T shareholders. It will be a little bit easier to figure out what's going on and focus on what's actually happening in their business," he said.

MORE COMPANIES MAY FOLLOW

Rivals such as Verizon Communications Inc <VZ.N> could potentially follow suit if AT&T shareholders react well to the move, Larsen said. Verizon declined to make an immediate comment.

Another big U.S. company, Honeywell International Inc <HON.N>, a maker of cockpit electronics, led the way with a similar change to its accounting announced in November.

AT&T, which runs the second-biggest U.S. mobile service, said it will record a hit of 28 cents a share in the fourth quarter, during which it changed its accounting method.

But the company said the move would not affect its cashflow. It forecast 2011 adjusted benefit costs to be in line with 2010 adjusted levels.

The move gives a better reflection of how AT&T is affected by market conditions of the time, said Chief Financial Officer Rick Lindner.

"It simplifies our benefit plan accounting and makes it easier to understand. It is tied to current market returns, interest rates, and healthcare costs," he said in a conference call with analysts.

The company said it does not anticipate the need to contribute additional funding to the pension in 2011 as it is currently in compliance with funding requirements.

At the end of 2009, AT&T's pension obligation was $50.85 billion, with $3.977 billion of that unfunded. It has yet to report its 2010 obligations.

MORE VOLATILITY LIKELY

Ronald Huefner, a professor of accounting at State University of New York at Buffalo, described AT&T's previous approach as "smoothing."

"Earnings will probably be more volatile. One of the reasons for the rules that we had is that they tried to take the volatility out, recognizing that there would be good years and bad years," Huefner said.

Going forward, all forecasts regarding benefit costs will exclude this gain or loss adjustment to be taken each fourth quarter to reflect actual results, the operator said.

"It makes it easier to compare one period to the next operationally," said Steve Albert, chair of the American Academy of Actuaries' pension accounting committee. "The numbers they're going to talk about for each period relate to events that happened in that period."

The changes by AT&T and Honeywell mirror revisions proposed by international accounting standard-setters, which could eventually be required for U.S. companies.

The International Accounting Standard Board, which sets accounting rules for over 100 countries, in April proposed banning the use of smoothing, or recognizing pension fund gains and losses over several years.

The U.S. Securities and Exchange Commission is mulling a requirement that U.S. companies switch to international rules.

Dallas, Texas-based AT&T's shares closed 4 cents higher at $28.08 on the New York Stock Exchange.

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