The Big Chill: Just when the baby boomers were about to earn some nice pension benefits, their plans are being frozen. What to do.

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New economy companies--companies like Google or Cisco--don't offer traditional defined benefit pensions, the kind where you get your gold watch and your former employer pays you a fixed stipend for life. Old Economy companies like General Motors and DuPont do pay them. As of year-end 2005, 627 of the nation's largest 1,000 corporations still sponsored defined benefit plans. So if you are a graying middle manager at an old blue chip and participate in one of these plans, you're all set, right?

Not quite. Employers have the right to freeze defined benefit plans. And when a plan is frozen, considerable damage is done to someone who has spent most of a career at one company but is 10 to 15 years away from retirement. You'd be astonished how little of the value of a defined benefit builds up in the first 25 years of your career. If you haven't already, you should figure out just what you'll be left with if your employer freezes your plan.

The risk is tangible. Eighteen percent of the 1,000 big companies with defined benefit plans had, as of last December, frozen at least one of their plans, with the majority of those freezes occurring in 2004 or 2005, according to consultants Watson Wyatt Worldwide. Another survey, by sei Global Institutional Group, recently found the freezes more extensive when midsize companies are factored in. This poll of 139 pension sponsors (both large and midsize businesses) showed that 40% had frozen or closed their plans, up from 30% in January.

An employer can't legally take away pension benefits workers have already earned. And most companies, when freezing a plan, also beef up their contributions to employees' 401(k)s. Example: When Verizon Communications partially froze its nonunion pension plan covering 50,000 workers in July, it raised the maximum company match (assuming it hits profitability targets) to 9% of salary for a worker who saves 6%, up from 5% for one who saves 6%.

So what's the problem? Midcareer folks lose ground in this shift. That's because of a crucial difference between defined contribution plans like 401(k)s and defined benefit pensions. And it's not the one discussed all the time: namely, that the employee is responsible for the investment of 401(k) money, whereas the company manages the cash and assumes the investment risk in a traditional pension.

No, the crucial difference is this: Provided the company match stays the same, the benefits of a 401(k) are earned pretty evenly over a working career. But a traditional pension plan calculates your payout based on the last few years of your pay, which at age 65 is likely at its highest point.

Suppose you are making $100,000 a year at age 45 and your plan gives you an annual benefit equal to 1% of final pay times number of years of service. Now suppose prices and wages double over the next 20 years. If the plan stays alive and you stay in it, the year you put in at age 45 will earn you roughly a $2,000 annual benefit in retirement. But if the plan is completely frozen as of Dec. 31, your work in 2006 has earned you only $1,000 annually. A 401(k) doesn't have this problem because the money you salt away at age 45 continues to build earnings for 20 years even if you stop putting new money into it.
Economist Alicia Munnell, director of Boston College's Center for Retirement Research, suggests that workers assume their pensions will be frozen and revise retirement planning accordingly. Still, the arcane computations in defined benefit pension plans make it hard for most employees to predict how much they will suffer in a freeze. "Many midcareer workers don't realize they haven't accumulated much in a pension plan until it shuts down," Munnell laments.

Federal pension law entitles you to receive a calculation of your vested benefits once a year if you request it in writing from the plan administrator. Ask for it. But first check your drawer to see if the plan sent you one you haven't read.

Meanwhile, the table, prepared for forbes by Watson Wyatt senior consultant Alan Glickstein, shows how workers of a certain age and job tenure fare if their plan is hard frozen, meaning that even senior workers earn no additional benefits. The "value today" row shows what a worker would need in 2006 dollars to buy an annuity equal to his frozen pension; the "value at 65" row shows what the pension would have been in 2006 dollars if there hadn't been a freeze. The bottom row shows the percentage of salary a worker would need to contribute annually to a 401(k) to compensate for a pension freeze. (Click here for an expanded version of the table.)

The table tells a depressing story. A 50-year-old with 20 years of service has so far earned just a quarter of the pension he could have expected at age 65. The middle-aged worker has to scramble to make up for a freeze, boosting his savings by 16% of pay. By contrast, a 30-year-old can replicate the benefits of a traditional pension plan by contributing 8% of salary a year to his 401(k) for the next 35 years. (The calculations assume a 5% annual growth in wages and a 6% return on investments.)

Certainly defined benefit pensions could always produce fickle results. Much more went to company lifers than to job-hoppers. Even those who stayed at the same desk could be disappointed, if their employer changed. Randolph Friend, 54, who's held his current job in Dallas since 1998, has seen four different owners. Hence, he estimates, his benefit is 28% less than it otherwise would be. "I had the legs cut out from under me," he says. But at least he understood what was going on. "I never assumed I'd have a pension," says Friend, who is a defined benefit plan actuary.