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IBM Changes U.S. Pension Plans, Effective in 2008, as Part of Ongoing Global Retirement Plan Strategy Shift

Armonk, NY - 05 Jan 2006:

IBM today announced that it has changed its U.S. defined benefit pension plans and that it plans to redesign its 401(k) savings plan, effective in January 2008.

The changes continue IBM's global strategy of shifting the future focus of retirement benefits toward the more predictable cost structure of a 401(k), or defined contribution, plan and away from its legacy defined benefit pension equity and cash balance plans. They include:

- Stopping the accrual of future benefits in the company's defined benefit pension plans, and fully preserving all retirement benefits that employees will have earned as of December 31, 2007.
- Redesigning its 401(k) savings plan to make it one of the richest in U.S. business by giving current pension plan participants an annual company-funded contribution of as much as 10 percent of their pay. To provide this benefit through its new 401(k) Plus Plan, IBM plans to double the current company match to dollar-for-dollar on up to 6 percent of salary deferrals, and to make additional automatic contributions of 1 to 4 percent of employees' pay into their 401(k) account.
- Assisting nonexempt pension equity plan participants to save more by providing an annual special savings award of 5 percent of pay to their 401(k) savings plan, in addition to the company-funded contribution of up to 10 percent of pay.
- Ensuring 100 percent employee participation in the 401(k) savings plan by opening accounts for employees who do not contribute to the plan, and annually depositing the automatic company contribution of 1 to 4 percent of their pay directly into these employees' accounts.

The changes do not affect IBM's 125,000 current U.S. retirees, former employees with vested benefits or employees who retire prior to January 1, 2008.

"In recent years, IBM has been following a global strategy to move toward defined contribution retirement plans for both existing employees and new hires," said Randy MacDonald, IBM senior vice president, human resources.

"These changes are consistent with this direction and will give us more predictable retirement plan costs, along with benefits that remain ahead of -- but more in line with -- our competitors.

"We're taking these actions to better control retirement plan expenses, position the company for business growth and competitive strength, and preserve employees' earned retirement benefits, while instituting a leading-edge 401(k) plan that will be one of the richest in the country and a standard in the United States. We also believe these are prudent and balanced steps at a time of uncertainty and conflicting legislative and regulatory directions about defined benefit retirement plans in the United States."

The company will record a one-time pre-tax charge related to these pension plan changes of approximately \$270 million in the fourth quarter of 2005 as a result of the curtailment of the defined benefit plans.

IBM expects the U.S. plan changes announced today, along with 2006 retirement plan changes under consideration in several other countries, will result in worldwide retirement-related expense savings of \$450 to \$500 million for 2006, and \$2.5 to \$3 billion for the period 2006 through 2010, based on year-end 2005 pension assumptions.

Despite these global actions, the company said it still expects worldwide 2006 retirement-related plan expenses will continue to increase over 2005 levels by \$400 to \$500 million, excluding the impact of 2005 one-time charges.

IBM's U.S. defined benefit pension plans will stop accruing new benefits effective December 31, 2007. All benefits earned through year-end 2007 by participants in its pension equity and cash balance plans will be preserved as of that date. These benefits will be available to participants when they leave IBM, under the same payment options currently in effect.

Benefits planned under the new 401(k) Plus Plan, beginning in January 2008, are as follows:

- Pension equity plan participants receive a dollar-for-dollar match on the first 6 percent of pay deferred and a 4 percent automatic company contribution, for a total of 10 percent of pay. Nonexempt pension equity plan participants receive an additional special savings award equal to 5 percent of pay.
- Cash balance plan participants receive a dollar-for-dollar match on the first 6 percent of pay deferred and a 2 percent automatic company contribution, for a total of 8 percent of pay.
- Employees hired after December 31, 2004, receive a dollar-for-dollar match on the first 5 percent of pay deferred and a 1 percent automatic company contribution after one year of service, for a total of 6 percent of pay.

IBM's U.S. defined benefit qualified pension plan was fully funded in excess of the projected benefit obligation with more than \$48 billion in assets at the end of 2005. No funding contribution was made to the U.S. plan in the fourth quarter of 2005.

IBM's 401(k) plan, with more than \$26 billion in assets, is the largest in the country. More than 90 percent of IBM's U.S. employees participate in the plan, and 88 percent of these participants already defer at least 6 percent of pay. The plan also offers one of the lowest management fees of any 401(k) plan, automatic savings, a range of investment features, availability of a rollover to an annuity payment form and disability protection.

Additional information is available on IBM's investor Web site at <http://www.ibm.com/investor/viewpoint/ircorner/2006/06-01-05-1.phtml>

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