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IBM injects €731m into UK pensions

<http://www.ipe.com/article.asp?article=20181>

IPE.com 30/Jan/06: UK – Computer giant IBM has proposed a wide-ranging set of changes to its UK pension arrangements, including a £500m (€731.4m) cash injection.

Trustee chairman Jim Lamb said in a letter to all defined benefit members of the IBM Pension Plan that the changes included reducing the rate of growth of pensionable earnings for current employees who choose to remain in its DB plan and allowing current employees to transfer to a defined contribution scheme.

The firm will also reduce the level of pension in payment increases below established practice but guarantee that increases will be awarded annually for the next 15 years.

Lamb said: "IBM has advised the Trustee that the IBM Pension Plan in its current form is too expensive to maintain and that it needs to take action now to reduce the cost of pensions if it is to be competitive in the UK marketplace."

The letter said that the trustee had agreed in principle to the changes, after legal and actuarial advice.

The cash injection – to be paid before the end of March - would eliminate the estimated deficit at the end of 2005.

The letter concluded: "The Trustee is disappointed that IBM has found it necessary to bring forward these proposals a year after the Trustee agreed to increase employee contributions (or reduce accrual rates) to reflect a fair share of the increased cost of longevity on future service.

"The Trustee was led to believe that these changes made the Defined Benefit Plan affordable for IBM and sustainable.

"However, IBM has made it clear to the Trustee that making no change to pensions benefits is not an option given the very competitive UK marketplace, the higher cost of doing business in established geographies, and the fact that many of its competitors do not have the same level of pensions costs as IBM."

By Daniel Brooksbank