Major U.S. firms seek to remove DB obligations: Reuters

By Editor Test *Mon, Oct 22, 2012*

DB plan sponsors believe that interest rates will remain low, making it more difficult for their currently under-funded plans to meet their long-term obligations to vested participants.

Two giant telecom companies announced major defined benefit pension de-risking moves last week, Reuters reported. On October 19, AT&T announced that it would move a $9.5 billion stake in its wireless business into its underfunded pension plan.

Earlier last week, Verizon said it would sell $7.5 billion in pension obligations to Prudential Financial Inc., which bought part of General Motors' pension obligations earlier this year.

In a survey released earlier this year by Aon Hewitt, 35% of about 500 large American employers said they expect to offer a lump sum payout to DB plan participants.

Companies are beginning to believe that interest rates will not rise in the near future, analysts told Reuters. Low interest rates mean lower returns on the investments companies use to pay their pension obligations.

Verizon hopes to remove a quarter of its pension burden with a single upfront payment to Prudential in a terminal funding deal. Verizon has said it would inject $2.5 billion into its pension plan prior to closing it.

Besides the two telecoms and General Motors, at least four other firms—Taco Bell, Yum Brands (owner of KFC), Kimberly-Clark Corp. and Sears—have taken similar steps. Kimberly-Clark recently told about 10,000 ex-employees not yet receiving retirement benefits that it would offer them a lump sum distribution. Sears Holdings Corp in September contributed $203 million to its pension plan to make it at least 80% funded.

Archer Daniels recently began telling vested former workers they are eligible for a payout. Depending on uptake, ADM estimates it could "reduce its global pension benefit obligation by approximately $140-$210 million and improve its pension underfunding by approximately $35-$55 million."

Yum said in its filings that it is making a similar decision "in an effort to reduce our ongoing volatility and administration expense." Funding would come from existing pension assets. It expects a pre-tax non-cash charge between $25 million and $75 million for that purpose in the fourth quarter of 2012.