US executives' pensions soar in value

More Americans have to work past 65

David Walsh
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A recent study conducted by Sun Life Financial, whose findings surprised even its own authors, revealed that some 65 percent of Americans now believe they will have to work longer than they had anticipated, up 11 percent since a similar poll carried out at the end of 2008.

Sun Life notes: "The Index also indicates 27 percent of Americans now believe they will need to work at least five years longer than expected because of the current economic environment." The financial company's research indicates that 55 percent of Americans think they will be working full- or part-time at 67, "and another new high of 28 percent of US workers across all age groups are planning to work full time past the age of 67."

Wes Thompson, president of Sun Life's US division, told *Time* magazine, "Clearly the notion of retiring at age 67 or 65 is behind us. People are looking at that through the rearview mirror." *Time* continues, "Workers have been rattled by the lost equity in their homes, retirement-plan losses and long-term concerns about Social Security."

Only 22 percent of American workers, according to Sun Life, are "very confident" that they will be able to take care of medical expenses and less than half (40 percent) are confident that they will have enough money for "basic living expenses" in retirement. "Overall, less than one in four workers are very confident they will be able to live the kind of life they want in retirement."

No such problems for the American corporate elite, who are making sure a considerable portion of the national wealth is set aside for their golden years.

Two *Wall Street Journal* reporters sifted through the company filings of 340 large US firms and discovered that pensions for their top executives rose by an average of 19 percent last year ("Pensions for Executives on Rise," November 4, 2009). More than 200 CEOs and other executives received increases in their retirement savings by as much as 50 percent, even as their companies' stock prices fell by an average of 37 percent and, in many cases, the benefits of employees were frozen or slashed.

Perhaps not too many will be shocked by the revelations, but the level of corporate looting, which must, in many cases, have a detrimental long-term impact on the firms themselves, is nonetheless remarkable.

The *Journal* notes, "The executive-pension growth stemmed partly from generous pension formulas, which are based on executive pay, according to the filings. Also adding to the pension jumps are arcane techniques that have received little scrutiny, including increases triggered when an executive reaches a certain age or when companies change interest rates used to calculate the pensions."

The amount owed in pensions to the top executives (4 to 6 people) of General Electric, for example, increased by 13 percent to $140.7 million in 2008; at Exxon Mobil, it increased by 18 percent to $108.2 million; at ConocoPhillips, by 21 percent, to $100.9 million. And so forth down the line.

Even as public outrage over executive pay swelled this year, and certain companies made token efforts to restrain CEO salaries in the interests of better public relations, the *Journal* points out, the growth of "supplemental executive retirement plans, or SERPs—which can be worth tens of millions of dollars to executives—largely has been overlooked."

Companies used a variety of means to pour wealth into their executives' pockets. Since such pensions are generally calculated by multiplying pay by years of service, increasing either one multiplies the value of retirement plans.

Appropriately, with the need to "cut healthcare costs" emphasized in countless speeches and editorials, Richard T. Clark, the CEO of pharmaceutical giant Merck & Co,

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had “the portion of his compensation used to calculate his pension rise more than $6 million in 2008, which in turn helped boost the value of his pension to $21.7 million from $11.9 million,” explains the newspaper.

Executives at energy titans ConocoPhillips and ExxonMobil also fared well in 2008. The former used “certain incentive payments” in calculating CEO Jim Mulva’s generous retirement package, increasing its value by $9.5 million, to $68.5 million.

At ExxonMobil, the firm uses the three highest bonuses in the five years before an individual’s retirement to determine the amount of his or her pension. Thus, a $4 million bonus paid to CEO Rex Tillerson in 2008 bumped his pension up to $31 million from $23 million.

Companies also tack on years of service to reward executives even bigger retirement payoffs. Constellation Energy Group’s compensation committee decided to count Chairman and CEO Mayo Shattuck’s years as a *director* at the company to figure out how much he would receive in retirement benefits designed for an active corporate executive. That added more than $10 million to his pension payments, a 45 percent increase.

Reaching a birthday can mean a great deal of money to some executives. Altria Group’s CEO Michael E. Szymanczyk saw his pension rise “when he turned 60 last year, triggering a subsidy built into the pension formula, boosting its total value to $23.5 million,” writes the *Journal*.

Goodyear Tire increased the pension of CEO Robert Keegan by $6.2 million in 2008. Meanwhile, the *Journal* reporters point out, Goodyear froze salaried employees’ pensions at the end of the year, declaring further increases “could impair our ability to achieve or sustain future profitability.”

In an accompanying article (“Filings Don't Tell Full Pension Story”), the *Journal* notes that while companies “are required to report the size of their top executives’ pensions…sizing up the IOUs can require sleuthing through financial filings.”

Firms, for example, may publicly reveal pension tables that disclose minimum payouts, but reward executives higher amounts “by using different assumptions than the ones they use for the pension table.”

Corporations give deliberately confusing or obscure names to their pensions. Omnicom Group invented a “Senior Executive Restricted Covenant & Retention Plan” in 2006. The company neatly refers to benefits as “post-termination compensation.”

Or a corporation may deliberately calculate pensions on the assumption that an officer will retire at 60 or 62, and when he or she works until the age of 65, provide a large lump sum that includes the value of additional years of payments.

In its filing, drug wholesaler McKesson Corp. (another combatant in the war to lower healthcare costs) estimates the value of CEO John Hammergren's pension at $49.7 million in 2008. Elsewhere, however, the firm “noted that Mr. Hammergren’s pension is potentially worth $92 million, partly because of different assumptions used to calculate the lump sum. Another major reason: Mr. Hammergren’s lump-sum payment assumes a retirement age of 55 plus one month; this boosts its total value by $23 million, according to company filings.”

In short, American corporations are using all manner of ingenious means to further enrich the already fabulously wealthy corporate aristocracy.

Meanwhile, according to Retirement USA, an organization set up by the AFL-CIO, SEIU and various advocacy groups, for workers ages 55-64, the average 401(k) account—on which millions now solely rely for their retirement—was $40,000 in 2006.

A Florida newspaper observes understatedly, “Making $40,000 last for 20 years of retirement is difficult, especially when you consider that the average yearly Social Security benefit is $13,929.”

Approximately one-third of American households have no retirement savings whatsoever.

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