
PENSION CHANGE FACT SHEET

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RESEARCH
AT BOSTON COLLEGE

MARCH 2006

COMPANY NAME: IBM (International Business Machines) Corporation

U.S. EMPLOYEES: 125,000

TYPE OF PLAN(S): Pension Equity — 31,000 participants affected
Cash Balance — 86,000 participants affected

DATE ANNOUNCED: January 5, 2006

DATE EFFECTIVE: January 1, 2008

DESCRIPTION OF FREEZE: *Total Freeze*. Members in IBM's U.S. defined benefit pension plans, the pension equity plan and the cash balance plan, will stop accruing new benefits on December 31, 2007.

PLAN SOLVENCY: At year end 2005, defined benefit plan assets were \$48.542 billion and plan liabilities were \$46.405 billion. The \$208 million plan assets in surplus of benefit obligations will stay in the pension plan.

REPORTED FINANCIAL IMPLICATION: As a result of the freeze, IBM incurred a \$267 million pre-tax charge in the fourth quarter of 2005. In 2006, the company expects savings of \$450 to \$500 million. Between 2006-2010, savings of \$2.5 to \$3 billion are expected.

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

- Pension Equity Plan participants will receive a dollar-for-dollar match on the first 6 percent of pay deferred and a 4 percent automatic company contribution. Nonexempt pension equity plan participants receive an additional 5 percent of pay.
- Cash Balance Plan participants will receive a dollar-for-dollar match on the first 6 percent of pay deferred and a 2 percent automatic company contribution.
- Employees hired after December 31, 2004, will 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.

BACKGROUND: IBM is one of the world's largest information technology companies. In 1995, IBM modified its traditional accrual of benefits formula for defined benefit plan participants. In 1999, IBM converted its defined benefit plan to a cash balance plan. These two changes in the 1990s were met with controversy. At the end of 2004, IBM closed its defined benefit plan to new hires and instead offered them a 401(k) plan and a stock purchase plan.

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