IBM Reopened Their Defined Benefit Plan. Will Other Companies Follow?

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Only a handful seem like logical candidates, with big banks topping the list.

One more note on IBM re-opening its frozen defined benefit plan, because my colleagues and just completed a study to identify what companies might follow. The answer is mainly big banks, but let me provide a little background.

Starting in January 2024, IBM ended its 5-percent matching contribution and 1-percent automatic contribution to employees' 401(k) accounts in favor of an automatic 5-percent contribution to a "Retirement Benefit Account" for each employee. The Retirement Benefit Account is the employee's "notional" account in the cash balance component of the company's defined benefit plan. IBM had closed its defined benefit plan to new participants in 2005 and "frozen" benefits – that is, ended new accruals – for existing participants in 2008. This shift allows IBM to fund its annual retirement contributions of $530 million with the $5 billion surplus in its overfunded defined benefit plan, rather than with corporate cash contributed to its 401(k) plan – improving its cash flow statement.

The question is whether other corporate sponsors will follow suit. Logically, a potential follower should have: 1) a large defined benefit surplus that can be put to use; and 2) large 401(k) contributions that, once saved or reduced, can significantly improve the company's cash flow. We started by focusing on companies with defined benefit obligations of more than $10 billion and then narrowed the focus to those with closed/frozen plans that have a funded ratio of over 100 percent. This exercise resulted in the eight companies shown in Table 1. In addition to the funded ratio, the table includes the surplus in the company's defined benefit plan, contributions to the company's 401(k) plan, and two measures that might provide an incentive to consider IBM's approach. Not surprisingly, IBM ranks high on both incentive measures.

Table 1. *Corporate Sponsors of Large Overfunded Closed/Frozen Defined Benefit Plans, 2022*

Company	Percentage funded	DB surplus (millions)	Employer 401(k) contribution (millions)	DB surplus as % of shareholder's equity	401(k) contributions as % of operating cash flow
Bank of America	149.0%	$5,678	$1,203	2.1%	4.2%
JPMorgan Chase	146.8	6,345	973	2.2	3.6
Honeywell International	128.0	3,715	207	21.5	3.3
Deere & Company	125.5	2,690	237	13.3	3.8
IBM	**124.9**	**5,003**	**530**	**22.7**	**4.0**
Citigroup	110.3	949	471	0.5	2.5
General Motors	100.2	84	724	0.1	3.9
Ford Motor	100.2	55	393	0.1	2.0

Source: Securities and Exchange Commission (2023).

On the top of the list are the nation's two largest banks – Bank of America and JPMorgan Chase. The sheer dollar amount of their pension surpluses may trigger serious consideration of potential alternative uses. Also, these companies made large 401(k) contributions both in dollar amount and as a share of their annual cash flow. Citigroup, the fourth largest U.S. bank, is also on the list with a funded ratio of 110 percent, although its defined benefit surplus and 401(k) contributions are much lower than the top two.

Honeywell International and Deere & Co., which are third and fourth on the list, face a situation similar to IBM's in terms of the relative sizes of their surpluses and 401(k) costs. Deere & Co. may not take further actions anytime soon as it just closed its defined benefit plan for salaried employees to new hires in January 2023 and greatly enhanced its 401(k) match. However, down the road, a rapid increase in 401(k) costs could trigger a reconsideration of the defined benefit option.

General Motors and Ford seem unlikely to follow IBM in reopening their barely fully funded defined benefit plans. In recent labor negotiations, the companies rejected the union's demand to reopen their defined benefit plans and instead agreed to increase their 401(k) contributions substantially.

That's all we know. It will be interesting to see what happens next.