

MACROCOSM

The Pension Headwind: The Final Tally

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Donald Luskin

All 25 companies in the Dow Jones Industrials that sponsor defined benefit pension plans have now filed their 10-k's. We can now complete the pension survey that we offered in preliminary form last week (see ["Up Against the Pension Headwind"](#) March 27, 2002).

In fiscal 2001 the average defined benefit pension plan experienced negative investment returns of 7.1%. Larger plans did slightly less badly, so the weighted average loss is a somewhat less awful 6.4%.

After deduction of benefits payments, the average plan's asset value fell 13.0%, from \$16.8 billion to \$14.5 billion. Larger plans made disproportionately larger benefit payments, so the weighted average fell 13.8%. Across all the companies, total pension assets fell from \$419.5 billion to \$361.5 billion.

Two companies (**Walt Disney** and **United Technologies**) lowered the assumed return on assets used in calculating pension expenses and credits under GAAP for fiscal 2001. Four others (**General Electric**, **IBM**, **International Paper** and **AT&T**) left the rate unchanged for 2001, but announced they would lower it for fiscal 2002. Four companies (**Alcoa**, **American Express**, **Citigroup** and **SBC Communications**) raised the rate for fiscal 2001. Overall, on a weighted average basis, assumed returns have fallen from 9.6% for 2001 to 9.4% for 2002.

Lower plan asset levels combined with lower assumed returns means that there will be a \$6.4 billion pre-tax hit to earnings in fiscal 2002 -- 5.9% of 2001 net income. This is baked in the cake now, no matter what actual market performance turns out to be.

The same factors conspired to virtually wipe-out the overfunded status of pension plans overall, from \$87.3 billion to \$15.0 billion. Just as earning growth comes into 2002 facing a 5.9% headwind, balance sheets are now impaired by \$72.3 billion. **TM**

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On the following page are tables that track these factors. Soon we will also produce companion tables that analyze post-retirement health care plans.

Defined Benefit Plan Impact on Reported Net Earnings

Source: Company 10-k's, TrendMacro analysis

	ASSUMED RETURN			PLAN ASSETS			P/L	HIT TO NET	
	2002	2001	2000	2001	2000	Y/O/Y	2001	2002est	01 Net %
AA	9.50%	9.50%	9.00%	8,434	9,790	-13.9%	0.7%	(129)	14.2%
AXP	9.50%	9.50%	9.00%	1,190	1,480	-19.6%	-16.1%	(28)	2.1%
BA	9.25%	9.25%	9.25%	33,810	42,856	-21.1%	-16.7%	(837)	29.6%
C	9.50%	9.50%	9.25%	8,224	8,478	-3.0%	-2.8%	(24)	0.2%
CAT	9.70%	9.70%	9.70%	8,481	9,490	-10.6%	-4.7%	(98)	12.2%
DD	9.50%	9.50%	9.50%	17,923	20,314	-11.8%	-3.0%	(227)	5.2%
DIS	9.50%	9.50%	10.00%	2,450	2,773	-11.6%	-8.3%	(31)	19.4%
EK	9.50%	9.50%	9.50%	6,317	7,290	-13.3%	-5.7%	(92)	121.6%
GE	8.50%	9.50%	9.50%	45,006	49,757	-9.5%	-5.8%	(901)	6.6%
GM	10.00%	10.00%	10.00%	67,322	77,866	-13.5%	-5.7%	(1,054)	210.0%
HD	NO DB PLAN								
HON	10.00%	10.00%	10.00%	11,051	12,264	-9.9%	-3.1%	(121)	122.5%
HWP	9.00%	9.00%	9.00%	881	1,200	-26.6%	-25.6%	(29)	7.0%
IBM	9.50%	10.00%	10.00%	39,565	44,594	-11.3%	-5.4%	(701)	9.1%
INTC	NO DB PLAN								
IP	9.25%	10.00%	10.00%	6,502	7,253	-10.4%	-3.2%	(124)	10.3%
JNJ	9.00%	9.00%	9.00%	4,345	4,857	-10.5%	-5.7%	(46)	0.8%
JPM	9.25%	9.25%	9.25%	4,048	4,314	-6.2%	2.0%	(25)	1.5%
KO	8.50%	8.50%	8.50%	1,492	1,555	-4.1%	-6.2%	(5)	0.1%
MCD	NO DB PLAN								
MMM	9.00%	9.00%	9.00%	6,053	6,954	-13.0%	-10.4%	(81)	5.7%
MO	9.00%	9.00%	9.00%	9,448	10,322	-8.5%	-5.7%	(79)	0.9%
MRK	10.00%	10.00%	10.00%	2,864	3,121	-8.2%	-8.3%	(26)	0.4%
MSFT	NO DB PLAN								
PG	9.00%	9.00%	9.00%	9,448	10,342	-8.6%	-0.9%	(80)	2.8%
SBC	9.50%	9.50%	8.50%	32,715	40,814	-19.8%	-1.6%	(769)	10.6%
T	9.00%	9.50%	9.50%	18,485	21,863	-15.5%	-7.5%	(413)	5.9%
UTX	9.60%	9.60%	9.70%	10,025	13,119	-23.6%	-17.8%	(297)	15.3%
WMT	NO DB PLAN								
XOM	9.50%	9.50%	9.50%	5,415	6,795	-20.3%	-9.5%	(131)	0.9%
AVG	9.39%	9.61%	9.50%	14,460	16,778	12.98%	7.08%	-254	
TOTAL				361,494	419,461	13.82%	6.47%	(6,349)	-5.87%

Defined Benefit Plan Funded Status

Source: Company 10-k's, TrendMacro analysis

	FUNDED STATUS		
	2002	2001	Y/O/Y
AA	(54)	1,520	(1,574)
AXP	(351)	77	(428)
BA	1,117	13,754	(12,637)
C	401	1,096	(695)
CAT	(129)	1,401	(1,530)
DD	525	3,521	(2,996)
DIS	948	319	629
EK	660	1,760	(1,100)
GE	14,583	21,222	(6,639)
GM	(9,061)	1,735	(10,796)
HD	NO DB PLAN		
HON	99	2,132	(2,033)
HWP	(769)	(221)	(548)
IBM	956	7,055	(6,099)
INTC	NO DB PLAN		
IP	83	934	(851)
JNJ	(671)	292	(963)
JPM	41	416	(375)
KO	(414)	(264)	(150)
MCD	NO DB PLAN		
MMM	(500)	1,049	(1,549)
MO	630	2,740	(2,110)
MRK	(747)	(45)	(702)
MSFT	NO DB PLAN		
PG	630	2,740	(2,110)
SBC	7,655	15,237	(7,582)
T	4,450	8,800	(4,350)
UTX	(2,329)	887	(3,216)
WMT	NO DB PLAN		
XOM	(2,798)	(856)	(1,942)
AVG	598	3,492	(2,894)
TOTAL	14,955	87,301	(72,346)