PENSION RIGHTS CENTER

Pension Freezes

See our **list** of companies that have frozen or made significant changes to their pension plans.

What does it mean to "freeze" a pension plan?
When a company freezes its pension plan, some or all of the employees covered by the plan, stop earning some or all the benefits from the point of the freeze moving forward. Which employees and which benefits depends on the details of the specific situation. Companies have great latitude to change their pension plans. However, they cannot take away any benefit that employees have already earned up to the point of the freeze.

Are there different types of pension freezes?
There are various types of freezes based on whether some or all of the participants are permitted to continue earning benefits under the plan. Various terms have been adopted to label these different freezes, such as hard freezes, soft freezes and partial freezes. However it is best to understand the many ways an employer can freeze a plan.

> A plan freeze may completely bar employees from earning any further benefits under the plan. When an employer with a fully funded plan initiates this type of freeze, all employees become immediately 100% vested in everything they have earned under the plan, but they lose the ability to continue earning future benefits.
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> Alternatively a freeze may stop the benefits from growing for some but not all employees. Most commonly this occurs where an employer no longer allows new employees to enroll in the plan, but continues the plan for existing employees.
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> Finally, a freeze may stop employees from getting pension credit for future years of work under the plan, but allow their benefits to be figured on their pay at the time they leave the plan, rather than at the date of the freeze.

How are special early retirement benefits affected by a freeze?
If a plan promises that employees meeting certain age and service requirements will receive unreduced (or partially unreduced) pensions at early retirement ages, the share of the special early retirement pensions earned as of the date of the freeze will be protected ***if*** the employees later satisfy the requirements for these benefits. (Note: Some plans only provide this "anti-cutback" protection if the special early retirement pension is paid as a lifetime annuity rather than a lump sum)

How is a freeze different from a termination?
When a company freezes its pension, employees may stop earning benefits, but the pension plan continues in operation. It continues to be insured by the federal pension insurance corporation, and there is the possibility that the plan could be unfrozen. When a plan terminates, however, it stops completely and ceases all operations. If the plan is "underfunded" some or all of the promised benefits are likely to be paid by the federal pension insurance program. If the plan is "overfunded" it will be turned over to an insurance company, which will take over payment of the benefits.

Why do employers freeze plans?
Companies give many different reasons for freezing their pension plans. Some financially healthy employers say that a freeze is necessary to remain competitive with other

companies that don't provide pension plans. Others claim that freezes are necessary to pay for rising costs of health insurance. Still others point to uncertainties behind pending court cases, changes in accounting rules or the unpredictability of interest rates. Some say that their employees don't value the pension plan, preferring savings plans instead. Whatever the reasons given, the reality is that freezing plans saves money for companies, and, thanks to accounting rules, also allows them to show significant increases in operating income on their annual reports to shareholders.

Financially unhealthy employers also freeze plans in order to reduce expenses. Sometimes they do this under pressure from creditors or to stave off bankruptcy. A company also may freeze a plan when it acquires another and it would be too difficult to merge the plans. Typically, employers that freeze their defined benefit plans will typically offer enhanced savings plans to their employees.

Are employers permitted to freeze pension plans?
Current law generally allows companies to change, freeze or eliminate altogether, their pension plans, so long as the benefits that employees have already earned are protected.

Who is affected by a pension freeze?
Because benefits earned before the point of the pension freeze are protected by law, those workers and retirees who left employment before the freeze do not stand to lose benefits. In other words, a pension freeze only affects those employees for whom the company's promise of continuing to earn benefits under the plan is withdrawn.

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