

**EMPLOYEE POWER IN CONVERSIONS TO CASH  
BALANCE PLANS: UNION, PUBLIC, AND  
ELECTRONIC VOICE**

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**ABSTRACT**

Cash-balance pension plans have become attractive to employers as alternatives to traditional defined-benefit pension plans. This has caused many employers to convert from defined-benefit pension plans. Plan conversions, however, do not always work in favor of employees. When plan conversions make some employees worse off than they would have been if the defined-benefit pension plan had been continued, there is often an outcry from employees who seek to make changes in the way the plan is converted. The success of employee appeals is often contingent on the effectiveness of the voice mechanism the employees use. Traditional use of the union as a voice mechanism has the most direct impact on changes. However, an emerging form of voice is electronic voice, or "e-voice." This was used by employees at IBM to create awareness not only among employees, but also among the public. Traditional union voice continues to have the largest impact on employers. Alternative forms of voice, including e-voice and public voice, have less certain impacts and take much longer to play out. The merging of union voice and e-voice has the potential to strengthen both.

According to the Current Population Survey, 34 percent of the civilian labor force was forty-five years and over in 1999 [1]. As members of the baby-boomer generation continue to reach the age of fifty, issues related to retirement increase in importance. These issues include the financial viability of Social Security, the scope and coverage of Medicare, the availability of early retirement health plans,

and the postretirement income provided by private pension plans. Demographic changes in the labor force have resulted in several important structural changes in public and private retirement policy. For example, projections of the future numbers of retired workers versus those active in the labor force have prompted an increase in the normal retirement age for Social Security. Normal retirement age has been increased in increments from the traditional age of sixty-five to age sixty-six for those born between 1943 and 1954 and to age sixty-seven for those born in 1960 and later [2].

Meanwhile, private employers have been fundamentally changing the structure of the private pension system. A major shift from defined-benefit pension plans to defined-contribution plans has been frequently noted [3]. Among medium and large private sector establishments, the incidence of defined-benefit pension plans has decreased from 84 percent in 1980 to 50 percent in 1997, while the incidence of defined-contribution plans increased among these same employers from 45 percent in 1988 to 57 percent in 1997 [4]. These changes have been the result of a tremendous growth in 401(k) and similar money accumulation plans that have appeal for younger, more mobile workers. Conversely, traditional defined-benefit pension plans continue to have greater appeal to unionized workers and older workers who have long years of service at the same organization and anticipate receiving their highest increase in benefit value in the years just prior to retirement.

Wishing to balance the needs of younger workers (who would like more-portable benefits), the security needs of older workers, and favorable organizational financial outcomes, a number of employers have initiated conversion of defined-benefit pension plans to what is called a hybrid plan. One such hybrid plan is the cash-balance account. In theory, this plan combines the better features of the defined-benefit and defined-contribution plans.

Defined-benefit pension plans calculate benefits based on a defined percentage multiplied by years of service and, typically, the highest three or five years of compensation. Union-negotiated plans often use a dollar-per-year-of-service benefit formula for which the union can negotiate increased dollar amounts in subsequent negotiations. The effect is very similar to the traditional defined-benefit plan. In any case, the value of one's benefit increases as salary and years of service increase. Benefits build gradually over time, and the closer the plan participant is to retirement, the greater the value of the incremental benefits accumulated. The advantages of the defined-benefit plan include the possibility of a relatively high guaranteed postretirement income replacement amount and lack of investment risk, because this risk is shouldered by the employer. The disadvantages include the relatively slow accumulation of benefits in the early years, long vesting periods for today's highly mobile workforce, and the lack of benefits portability in the event of job change. Defined-contribution plans, on the other hand, provide earlier benefit accumulation, ease of portability through the use of rollover provisions when a person changes jobs, and usually short vesting

periods. However, these plans are less secure, because there is no guarantee about the amount of postretirement income amount an employee will receive and the employee bears the full investment risk. A major prolonged downturn in the stock market could have a devastating effect on postretirement income for employees in defined-contribution plans.

Cash-balance account plans attempt to mitigate the disadvantages of both plans. Cash-balance plans offer a more even pace of benefit accumulation in a form similar to defined-contribution accounts. However, the determination of the amount employers contribute to the cash-balance account is more similar to a defined-benefit plan formula, thus placing investment risk on the employer. Employers who make the switch tout the earlier accumulation of benefits to newer workers as a major improvement [5]. However, these plan conversions have raised serious issues for employees who find the conversion makes them much less well off than if they had been able to stay in the traditional defined-benefit pension plan.

One of the most significant issues when converting to cash-balance plans is called “wear-away.” “Wear-away” refers to the erosion of expected benefits to long-term workers. Because of the end-accumulation aspect of the traditional defined-benefit plan, some workers will find their high-accumulation years replaced by lower accumulation under the cash-balance plan. This is the effect that plan conversion has on long-term employees. The seriousness of these issues was manifested in testimony before the Senate Committee on Health, Education, Labor and Pensions when hearings were held on the subject of hybrid pension plan coverage in September of 1999. Karen Ferguson, director of the Pension Rights Center, testified in part, that “today, we are faced with a new kind of broken pension promise . . . Some IBM employees estimate that they have lost as much as one-half of the pensions they reasonably expected to receive—benefits worth hundreds of thousands of dollars [6, p. 1]. This is the effect of wear-away when conversions to cash-balance plans do not provide adequately for workers with many years of service.

Another issue raised by plan conversions is the adequacy of disclosure of plan-change impacts. Often, employees are not advised about the effects of the switch nor given any opportunity to give voice to their concerns. A survey of 100 employers revealed that “less than one-third of those that overhauled their traditional defined benefit pension plans since 1985 gave workers details when the changes could result in a 20 percent or more cut in future benefits” [7]. This leads to a number of important questions concerning communication to employees when plan conversions occur. How much explanation of the change in benefits is required? And, if employees are given a choice between alternatives, what assistance must the organization provide in helping employees understand their choices?

Finally, the benefits to the employer of making changes in the plan raise questions about the employer’s motivation for plan changes. For example,

accounting rules cause the change from defined-benefit plans to cash-balance accounts to be reported not only as a reduction in liability, but as a credit. As a result, conversion to cash-balance accounts helps the bottom line in very significant ways. For example, it has been reported that IBM expected to add more than \$200 million to its bottom line as a result of the plan conversion [8]. When organizations have significant financial incentives to change plans, coupled with inadequate communication of the potential negative effects of the plan change for some employees the need for an employee voice to express concerns is very important.

Concerns about wear-away, appropriate disclosure, and the financial statement benefits to employers have continued to prompt discussion about how plans should be converted. In the absence of any federal requirements on plan conversion, employee voice can play an important role in affecting employers' decisions on essential aspects of plan conversion. Voice is the attempt to effect change in organizational policies through formal and informal means [9]. Traditional forms of voice include collective bargaining, open-door policies, and complaint systems. The recent public debate concerning conversion to cash-balance plans provides an opportunity to examine the effects of both a traditional form and an emerging form of employee voice on employer pension policy changes. Both AT&T and IBM wanted to change the structure of their defined-benefit pension plan, but employee voice at AT&T was in the form of a union, while IBM workers used computer-mediated communications.

### **UNION VOICE**

Perhaps the most complete form of employee voice is the articulation of employee interests through a duly elected third-party representative, the union. Not only does the union provide voice for employee interests and concerns, but the employer is legally required to bargain with that union concerning wages, hours, and other terms and conditions of employment. A recent study indicates that while organizations may seek input from employees, they do not necessarily act on it [10]. This problem is overcome when the workers are represented by a union. Employers may not make changes to pension plans for unionized employees without gaining the approval of the union. Morton Bahr, president of the Communication Workers of America, (CWA), illustrated the impact of union voice on cash-balance conversions [11]. As early as 1992, AT&T had raised the issue of changing the traditional defined-benefit pension plan to a cash-balance account plan. No agreement was reached, but the issue resurfaced in 1995. At that time the CWA determined that the improved portability of cash-balance accounts would be advantageous, but was opposed to any plan that would diminish benefits for older workers. Again, no agreement was reached. During the 1998 contract negotiations, AT&T again raised the issue of converting to a cash-balance account plan. This time, the union agreed, but only under conditions that would permit employees with fifteen or more years of service to choose to receive benefits under

the traditional plan or the new plan. This illustrates the profound impact of employee voice through union representation. The union was not only able to prevent a conversion for a number of years, but it also shaped the form of the conversion in a way that protected the interests of employees who would have been affected by the “wear away” problem. Additionally, the union was in a position to assist employees in making their choices.

### **COMPUTER-MEDIATED COMMUNICATION: E-VOICE**

An emerging form of employee voice is computer-mediated voice. Computer-mediated communication has primarily been studied in terms of its effect on the completion of work tasks, but has more recently been examined as a voice mechanism to effect change in organizational policies [10]. Most often, these voice systems are created by the employer to solicit employee input or provide them with information, but often do not provide for employee participation in decision making. Technology, including electronic mail (e-mail), chat rooms, message boards, and Web-sites, makes available new ways for employees to express their views within structures of their own design. This emerging form of employee voice can also be called electronic voice, or e-voice: the use of electronic means to spread awareness of problems and put pressure on employers to address concerns. The decision at IBM to convert from a defined-benefit plan to a cash-balance plan provides an interesting case study of the effect of e-voice.

The employees at IBM were not unionized. This meant the employer could change the pension plan at its discretion, and so it announced a pending change in 1999. Many long-term employees were confused about the effect of the conversion and worried that they were not receiving the equivalent of the old plan. Frustrated by their perception that information was not easily available or understood, the long-term employees formed the IBM Employee Benefits Action Coalition. This group, using e-mail and a Web site (<http://www.cashpensions.com>), brought the plan conversion problems into public awareness. The spokesperson for the IBM Employee Benefits Action Coalition testified before the Senate Committee Health, Education, Labor, and Pensions, where she urged the committee to consider the problems of wear-away, disclosure of the effects of changes, and the proper role of plan administrators. IBM eventually announced that employees who were at least forty years old on June 30 and had at least ten years of service would be able to choose between the old and the new plans [12]. Employee-sponsored e-voice had thereby clearly demonstrated a powerful effect on the outcome of the cash-balance plan conversion.

The success of employees at IBM leads to significant questions about the efficacy of e-voice. In general, how effective can e-voice become? Is the IBM situation an outlier? To answer these questions, one must consider the factors affecting IBM's change of heart. The IBM employees had several distinct characteristics that made e-voice highly effective. First, they were highly educated, generally well-informed about their benefits, and, of course, well acquainted with the use of e-mail, Web sites, and other computer-mediated voice

technologies. Second, they had developed an activist organization that helped to direct public awareness of the problem. Third, they had contacted their lawmakers and the U.S. Department of Labor demanding an investigation of whether IBM's new plan constituted age discrimination [13, p. 1]. One must also consider the role of IBM, a high-profile company in a competitive business at the center of the controversy. Its response to the results of employee voice was affected by a number of factors, including its general high level of commitment to providing excellent employee benefits.

E-voice can succeed, but it requires certain employee skills as well as a significant number of employees who have the same complaint. Individual complaints that have appeared from time to time on Internet message boards, by contrast, tend not to have the same gravitas as a well-organized, multi-employee campaign. Employer reactions to individual employee complaints that have surfaced online have included legal actions to compel operators to reveal the identity of employees who criticized the employer on a message board and filing libel law complaints against the disgruntled employees [14]. Nevertheless, employee-controlled, company-specific Web sites concerned solely with cash-balance pension plans continue to proliferate. The IBM Employee Benefits Action Coalition Web site lists twenty employee pension Web sites, including the Bell Atlantic Employee's Yahoo Pension Forum, the AT&T Employee's Yahoo Pension Forum, the Duke Power Employee Pension Forum, and the Xerox Employee Action Forum.

Several interesting footnotes have occurred in the ongoing IBM cash-balance saga. First, the Communications Workers of America have begun an alliance with IBM employees with the ultimate goal of organizing the workers [15]. Second, IBM employees, many of whom were also IBM shareholders, attempted to reach other shareholders. IBM workers took a resolution to the annual shareholders' meeting that would have called upon the company to give employees a choice between the cash-balance pension plan and the traditional plan. Although shareholders rejected the resolution (71.6% against; 28.4% for), employees were able to obtain the right to raise the issue at next year's meeting [16]. This also provided employees with yet another forum to express their complaints about the cash-balance plan conversion. Third, the IBM Web site has gone beyond the single focus of the plight of IBM workers and has entered into the arena of public voice, the final form of voice to be discussed.

### **JOINED VOICES: PUBLIC VOICE**

Public voice has been a powerful partner in the conflict over cash-balance account conversion. This is the attempt to induce policy changes that would protect all workers, not just those with union representation or the ability to coalesce employee action. The forum for public voice includes both union and employee action group support. Thousands of IBM employees wrote or called lawmakers to complain about the cash-balance conversion [17, p. 6]. Some AT&T employees have filed a class action suit alleging that the cash-balance plan

implemented in 1997 violates the Age Discrimination in Employment Act. Plan conversions have resulted in close to 800 age-bias complaints to the Equal Employment Opportunity Commission (EEOC) [18]. However, the EEOC has not yet formulated a position on the legal status of the cash-balance plan [19].

The potentially discriminatory aspects of cash-balance plans have been noted by critics. Some of the elements cited include the idea that the cash-balance plan “reorients the employer’s pension plan toward younger workers even if the employer achieves no overall contribution reduction, since young workers’ pension entitlements typically climb as a result of the conversion . . . while older participants’ entitlements decrease” [20, p. 22]. Also, the tax and accounting incentives for plan changes have been subject to criticism.

Interestingly, the IBM Employee Benefits Action Coalition Web site has become a gathering point for information and policy analysis. The Web site lists more than 300 companies that are converting to cash-balance pension plans. In addition, the Web site has a list of action steps for anyone whose company is converting to a cash-balance plan. In this list, the “wear-away” problem is discussed, and employees are encouraged to gather specific types of information on their plan and make comparisons, encouraged to write their representatives, and given the opportunity to be assigned an “IBMBuddy” as “a focal point for advice or questions” [21].

The publicly voiced concern over conversions to cash-balance pension plans has, as previously mentioned, produced Senate hearing testimony and legislative initiatives. A pension bill nearing a vote in the Senate has widespread opposition among cash-balance opponents. IBM employees were among those presenting a petition signed by more than 2500 workers to the bill’s sponsor, Senator William Roth [18, p. 3B]. The House has sponsored a similar bill, but without the cash-balance provisions. Therefore, the effectiveness of public voice on this issue has yet to be determined.

Even so, the use of several forms of voice can create greater awareness and increased pressure on employers to respond to employee concerns. Clearly, some employers have responded to the concerns expressed by the general outcry over cash-balance plan conversions. For example, Eastman Kodak permitted all employees to choose between the old plan and the new plan. Other plans have made similar offers to avoid employee conflict and public controversy [22]. E-voice has been a significant player in making cash-balance plan conversions a matter of public concern.

### **COMPARING UNION VOICE AND E-VOICE**

Despite the fact that e-voice can be successful, as demonstrated by IBM employees, it does have some serious weaknesses. One of the limitations of e-voice is the employer’s ability to control the use of company computer-mediated resources, such as company-sponsored voice and e-mail. Employers can restrict the use of these resources and discipline employees who misuse them. While nonunionized employees have some rights to engage in activities for mutual

aid and protection, it is not clear that these rights would include access to company-owned computing and telephone facilities, particularly during working time. Employees could still use their own Web pages and personal e-mail, but this makes it more difficult to contact all employees easily.

Another significant limitation is the lack of free-speech rights for most private sector workers. Unionized workers have National Labor Relations Act (NLRA) Section 7 rights to make their concerns heard and to prevent employer retaliation. Public sector workers generally have constitutional free-speech rights, and unionized public sector workers usually have a state public employee relations act that provides them with speech rights similar to the NLRA. Nonunion workers have some limited rights under Section 7 as long as they are speaking for others and for mutual aid and protection. However, individual employees who make complaints and have no other legal protection (such as whistleblower or safety) may find their expressions can lead to a legal termination in many cases.

A final difficulty with e-voice, particularly as contrasted to union voice, is the lack of any legal requirement on the part of the employer to respond to this form of voice. There is some consensus that voice mechanisms lacking legal rights or union representation will be relatively ineffective [10, p. 230]. The use of e-voice does not necessarily empower those who use it. As a result, e-voice alone may not always produce the results that the employees at IBM achieved. Their use of both e-voice and public voice heightened awareness of the cash-balance plan problems and provided them with greater leverage than e-voice alone would have done.

### **THE FUTURE OF E-VOICE**

Technology has fundamentally changed the way in which many employees work. It has also provided the opportunity for employees to gain access to each other and to information in more effective ways than ever before. The future of e-voice as a tool for employee voice will have divergent origins and perhaps outcomes.

Employer-sponsored channels can provide information to employees and solicit feedback from them. In these situations the employer controls content and solely determines what, if any actions, will be taken. Although in some situations this voice mechanism can add value for both employer and employees, it can also become a point of conflict between them. The use of employer-sponsored e-voice, like other internal mechanisms such as open-door policies, can suffer from too much employer control and too little use of employee feedback.

Employees' efforts to create their own e-voice mechanisms continue to be limited by lack of the legal right to use employer equipment to raise employee awareness about issues of common interest. However, the combination of union voice and e-voice promises to provide greater opportunities to increase employee voice. Moreover, as the IBM situation demonstrates, when employees become impassioned about a work topic, their efforts to organize fellow employees can be forerunners to union organizing campaigns. Union-sponsored Web sites have the capability of reaching employees on an individual issue level. For

example, Web sites could be designed so that employees enter their age, dependent status, and years of service so they can receive specific information about issues of concern to them. There are already examples of heavy use of the Internet to coordinate union-organizing campaigns by the Service Employees International Union [23]. Use of the Internet and personal e-mail can improve union access, particularly to employees in white collar jobs, who have historically been difficult to organize. This also benefits organizing campaigns among geographically dispersed workers.

As e-voice continues to evolve in organizations, it will likely take center stage when important issues are raised. How effective it is will be a function of the power of employee voice, whether unionized or not, and the receptiveness of the employer to that voice.

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