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General Electric to freeze pensions for 20,000 employees

US conglomerate's latest debt-reduction plan follows asset sales and slashing of dividend

Peter Wells in New York OCTOBER 7 2019

General Electric is freezing retirement benefits for 20,000 longtime employees, in a move designed to cut billions of dollars from its pension deficit and debt pile.

The industrial conglomerate. whose chief executive Larry Culp has been working to improve cash flow following financial and business mis-steps under previous management, slashed its shareholder dividend to 1 cent last year and the series of pension changes announced on Monday will now spread the pain to GE employees.

As well as putting a halt to the accumulation of extra benefits to salaried members of its US final salary scheme, which was closed to new entrants in 2012, GE is also offering to buy out about 100,000 former employees who are members of the scheme and yet to start collecting their pensions.

Supplementary benefits for another 700 US employees who have been executives since before 2011 will also be frozen.

The company said it would use cash from recent disposals to pre-fund up to $5bn of the pension plan's funding requirements for 2021 and 2022, and the net effect would be to reduce its pension deficit by between $5bn and $8bn. GE's industrial net debt, which was $54.4bn in June, would also come down by between $4bn and $6bn, it said.

"Returning GE to a position of strength has required us to make several difficult decisions, and today's decision to freeze the pension is no exception," Kevin Cox, GE's chief human resources officer, said in a statement.

The changes brought GE into line with "current industry standards", the company said, referring to the widespread shift from defined-benefit pension plans, which guarantee a regular pension payout of a certain size, to savings plans such as the US 401(k) where the risk of shortfalls in investment returns falls on the employee.

GE was "committed to helping our employees through this transition", Mr Cox added, including by providing some money to kick-start 401(k) savings plans. The changes will come into effect at the start of 2021.

The company's financial strength weakened in 2017 and 2018 as a decline in a traditional core business — gas turbines for power generation — combined with difficulties at its GE Capital financial arm. It shed two chief executives, slashed its dividend, was forced to commit $15bn to cover legacy insurance liabilities and revealed its accounting had become the subject of investigations by the US Department of Justice and Securities and Exchange Commission.

The pension announcement extends a string of actions Mr Culp has taken during the past year in an effort to turn round GE and pay down net debt, including reducing its majority stake in oilfields service group Baker Hughes and the sale of its biopharma and rail transport units that should generate about $38bn of cash.

GE generated net proceeds of $2.7bn from trimming its ownership of Baker Hughes and, combined with a number of debt tender offers and the pension revamp, said it had now announced debt reduction measures of $9bn to $11bn in the past month.

The defined-benefit pension plan's deficit of about 20 per cent would not be altered by the lump sum offer to former employees, GE said, and it expects to record a non-cash pension settlement charge in its fourth-quarter results this year that will depend on how many people take up the offer.

Having been one of the original members of the Dow Jones Industrial Average, GE's precipitous share price decline led to its removal from the blue-chip stock market index in June 2018 after a tenure of more than a century.

The company's shares, up 18 per cent this year in line with the broader S&P 500, were flat in early trading on Monday.