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AIG to Freeze Traditional Pension Plan

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American International Group Inc. told employees in a memo Thursday that it would freeze its traditional U.S. pension plans, becoming the latest company to shift away from guaranteed retirement benefits.

The freeze will be effective Jan. 1, 2016. AIG has $4.1 billion in assets to pay out $5.7 billion in future obligations from its defined-benefit plans, meaning its liabilities are $1.6 billion.

The company said it intends to focus instead on enhancing its long-standing 401(k) retirement program with additional annual contributions to workers' accounts.

The memo doesn't specify the number of employees affected. AIG, one of the world's biggest insurance companies, has tens of thousands of employees world-wide.

AIG's action comes as the global insurance conglomerate has been seeking to improve its profit margins and improve overall results, following sales of many of its businesses that helped it to fully pay off one of the biggest federal-government bailout packages of the 2008 financial crisis.

Like most U.S. companies, insurers and financial-service firms have dramatically pulled back on offering traditional defined-benefit pension benefits to workers over the last two decades in favor of defined-contribution plans such as a 401(k), where employees are largely responsible for saving and investment choices.

Now just 20% of insurers and 6% of finance companies maintain traditional pensions for new hires, according to an analysis of 70 companies by consulting firm Towers Watson that was published last year. In 1998, some 82% of insurers and 57% of finance companies offered a defined-benefit option, Towers Watson said.

Only 34 companies in the Fortune 500 maintain a traditional defined-benefit plan for new hires, according to the Towers Watson review, versus 251 in 1998. Just last month, Pittsburgh steelmaker United States Steel Corp. said it would freeze its defined-benefit plan by the end of the year.

More U.S. firms are amenable to 401(k)-style retirement benefits because they reduce costs and shift the risk of market volatility to workers. Retirement obligations have mounted at many employers, creating hefty costs on company balance sheets.

Since 1998, more than one in five, or 21%, of Fortune 500 companies have frozen their defined-benefit plans, meaning current workers keep their pensions but new hires are put into a 401(k)-style system.

AIG decided to freeze its U.S. plans after discovering it spends more on employee-retirement programs than "most of our peers and that our programs are not in line with where the marketplace is headed," Jeff Hurd, an AIG executive vice president in charge of human resources and administration, said in the Thursday memo.

Separately, AIG is scrapping a performance-review program that had been championed by its former chief executive, the late Robert Benmosche, according to a another Thursday memo to employees signed by current CEO Peter Hancock.

Under the program, known as a "forced distribution" or "relative performance ratings" process, AIG employees are ranked on a scale based on their performance relative to co-workers, and their annual variable compensation was determined by their rank. Those ranked near the top got far more than other peers.

Mr. Benmosche said at the time he put the system in place that it would allow American taxpayers to take comfort that AIG wasn't "giving money away" to employees who weren't working hard enough to help pay them back. People ranked at the bottom would know they needed to work harder, he said at the time.

"Through the employee survey and in many other forums, you've asked for a performance-management process that is better suited to the AIG of the future," Mr. Hancock said in the memo. "We are abolishing ratings and will no longer categorize employees into performance groups. Instead, managers will have complete discretion in evaluating employees' performance."

The crisis-era ratings system "served us well at a time when AIG needed to demonstrate an ability to differentiate pay by performance, and it led to more honest discussions," Mr. Hancock added in the memo. "We will continue to identify and reward those who have contributed most to our success each year."

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