MANAGER'S JOURNAL / *By John J. Castellani*

Between Scylla and Charybdis

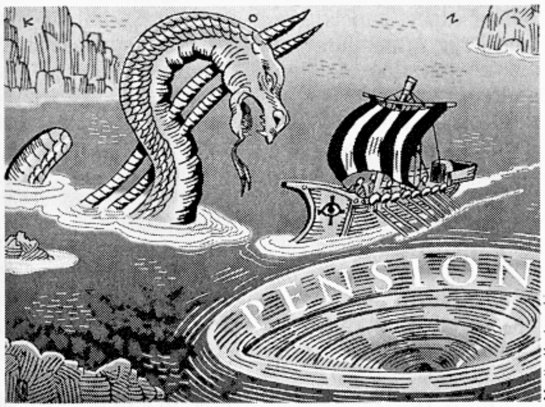
ABOUT 850 B.C., Odysseus, the hero from Homer's "The Odyssey," faced a perilous nautical journey between Scylla, a terrifying sea monster, and Charybdis, a massive whirlpool. As Homer's story was passed down through the generations, it became immortalized in the metaphor, "Between Scylla and Charybdis," which was used to describe the careful path one must take to emerge from two troubling fronts.

That's the cautious journey many American companies are navigating today—trying to drive forward our economy with the best products and services in the world, while at the same time supporting the core of American competitiveness: our work force. One element of that support has been traditional pension plans, through which employers provide more than $111 billion each year to approximately 23 million retired persons. This economic investment significantly contributes to recipients' retirement security and to our nation's overall financial strength.

But our nation's changing demographics—from the increasingly high number of baby boomers nearing retirement to the soaring health-care costs that are already unsustainable for many companies—have placed a severe strain on pension plans.

Changes are needed but must be carefully charted so as not to weaken companies whose watchful courses have mapped out the better route to secure and fair pensions in a way that would not limit their growth.

While most companies have kept their plans safely afloat within the current pension system, a handful of high-profile bankruptcies have triggered a cadence of reform proposals. The companies that make up Business Roundtable—representing more than 10 million employees and over $4 trillion in annual revenues—agree that targeted reforms are in order to address these troubled providers. However, wholesale reforms are unnecessary as they would harm viable plans that, for decades, have ensured employees' retirement security, and they could hamper the ability of plan sponsors to weather economic storms and continue to fuel economic growth.



Martin Kozlowski

It is heartening that the Bush administration and Congress have seized the opportunity to put forth proposals for reform. However, instead of providing a tail wind to our nation's pension system and the economy, many of the proposals could cause unintended and troubling financial crosswinds. Like heading into a storm with a full sail, indiscriminate reforms would strain the economy and threaten to sink even the strongest of pension plans and their company sponsors.

Instead, our pension system needs targeted reforms that will ensure a stronger economy by keeping our companies competitive and able to provide a secure retirement for our work force. Maintaining predictable, clear and concise pension guidelines will help providers make wise investments and will encourage pension savings. Responsible reforms will require a long-term outlook on savings, based on useful, timely and relevant information. In addition, targeted reforms should address four key issues:

- First, they must offer employers certainty to allow them to make wise business decisions and investments. Any reforms should allow an adequate transition period for compliance. In short, it takes a while to tack even the most agile craft. The larger the ship, the longer it takes to turn it around.
- Second, for an accurate and fair assessment of the strength of a pension plan, all assets must be counted. Credit balances accrued under terms of the previous law should not be discredited, and the ability of companies to prefund plans must be preserved. You must weigh all the cargo before loading it on board a ship, so as not to sink it.
- Third, plan sponsors need clear measures of predictability and smoothing of assets and liabilities to determine pension contributions. Like a ship being tossed by random and raging currents, pension plans cannot be expected to survive the snapshot effects of unpredictable market volatility. For survival, a ship must have a properly aligned rudder and forward momentum.
- Finally, funding rules should not be based on companies' credit ratings but should reflect the actual funded status of the company's plan. If a company is in the natural ebb of a business cycle, the primary interest of all parties should be that the business recovers—not that additional burdens are created. Miscalculating a narrow course can doom even the most seaworthy crew.

Success can be achieved only by charting a careful, steadfast course to keep our nation's retirees on smooth waters. It is a course with no alternative route. Failing to find the targeted path between Scylla and Charybdis would force companies into financial hardship and could result in the elimination of their pension plans. And that could bring turbulent seas for all of us.

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