

IBM Transfers a Portion of U.S. Pension Obligations

September 13, 2022

On September 13, 2022, IBM filed an 8-K describing the transfer of a portion of its U.S. qualified defined benefit pension plan obligations to The Prudential Insurance Company of America (“Prudential”) and Metropolitan Life Insurance Company (“MetLife”) (collectively, the “Insurers”).

IBM has taken actions over the last several years to reduce the risk profile of its worldwide retirement-related plans, while at the same time increasing the funded status of the plans. Exiting 2021, IBM’s U.S. qualified defined benefit pension plan (the “Plan”) was funded at 112%.

The overall funded status of the Plan makes the transfer of a portion of the pension liabilities and assets to an insurance company a logical next step to further de-risk retirement-related plans. This change eliminates the potential for IBM to make future cash contributions to fund the pension obligations being transferred to the Insurers.

On September 7, 2022, IBM and the Plan entered into two separate commitment agreements, one with Prudential, and one with MetLife. Under the agreements, group annuity contracts are purchased to transfer to the Insurers approximately \$16 billion of the Plan’s obligations related to certain pension benefits that began prior to 2016. This represents over 40% of the Plan’s obligations. On September 13, 2022, the purchase of the group annuity contracts closed, and the contracts were purchased utilizing assets of the Plan. No cash or asset contribution was required of IBM. Under the contracts, the Insurers split equally the responsibility to pay the pension benefits due on or after January 1, 2023.

In the third quarter of 2022, IBM expects to incur a non-operating, non-cash, pre-tax charge of approximately \$5.9 billion related to the accelerated recognition of actuarial losses for the Plan. The actual settlement charge will depend on finalization of the actuarial assumptions. This charge was not included in the GAAP forward-looking information released on July 18, 2022. As the charge is non-operating and non-cash, it will not impact IBM’s third quarter or full-year 2022 operating (non-GAAP) profit or free cash flow.

Immediately after the transaction, the Plan continues to be more than fully funded.