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BETA

AT&T Changes Life Insurance Promises To Retired Employees

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DALLAS, TEXAS - MARCH 13: A man walks with an umbrella outside of AT&T corporate headquarters on ... [+] GETTY IMAGES

The *Wall Street Journal* ran a story about how many retired AT&T T -3.8% workers found that the life insurance programs they were told would be available weren't, at least not at the same rates workers were told.

As the Journal reported:

AT&T's decision to cut life insurance and death benefits as of Jan. 1 for many of the 220,000 retirees eligible for the benefits has roiled a generation of workers who say their former employer is reneging on a promise.

The cuts don't apply to top executives, who have life insurance under a separate company-paid program, which the company can't reduce without their permission. AT&T will pay heirs of Randall Stephenson,

who left as chief executive in 2020, \$3.6 million under a life-insurance plan reviewed by the board last year, securities filings show.

That's quite a charge, though hardly a corporate shock. A look through history shows one corporation after another that dumped pension responsibilities onto a federal organization that picks them up so that people don't lose the support they expected as they age.

I sent questions over to AT&T on Tuesday and received answers late on Wednesday. Here are both and some analysis afterward. First, an overall statement from the company:

“We are proud to be one of fewer than 10% of Fortune 100 companies in America who offer company-sponsored life insurance and death benefits to our retirees. Our comprehensive offering still exceeds the benefits typically offered by others in the industry and we are subsidizing additional policies that these retirees can purchase.”

Now for the questions:

1. If workers were typically told they would receive \$60K when they died (taking that from the example in the story), that would be an outstanding future liability of about \$12 billion, correct?

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“This is incorrect, this is simple math that does not acknowledge the many employment and labor agreements we have with our employees are based on the programs of the various legacy companies that now constitute AT&T. The AT&T today is not the same company that existed more than 30 years ago. Furthermore, this oversimplification does not take into account common actuarial factors such as discount rate assumptions, the time value of money, and retiree demographics. The retirement benefit that was offered employees varied from company to company, changed over time and the liability was far less than the figure you cited.”

2. Was the offer of the life insurance benefits contingent on people taking early retirement when offered?

“We are proud to be one of fewer than 10% of Fortune 100 companies in America who offer company-sponsored life insurance and death benefits to our retirees. This life insurance benefit for retirees was a benefit offered to employees and unrelated in any way to “early retirement” or “voluntary separation” offers.”

3. Offering life insurance benefits typically means funding an insurance program with the expectation that current dollars would grow. Did AT&T have an investment program?

“Our pension and OPEB payments are made from trusts that we fund for those purposes, last year in 2020, we paid \$5.1B in pension benefits and \$1B in OPEB benefits — this is the equivalent of more than 20% of our free cash flow for the full year 2020 to fund benefits for current and future retirees. In the past 10 years (from 2011 to 2020), we’ve paid a total of over \$50B in pension benefits, split nearly evenly between annuities and lump sums, to just under 500,000 retirees. In addition, we continue to

subsidize medical coverage for nearly 370,000 retirees and their dependents.”

4. How much is currently in the fund?

“As a publicly traded company, we report all our financial obligations.”

5. What will be done with any of the invested funds after this year, when your company says it will no longer cover the insurance promise?

“The premise of your question is wrong; we did not take away the retirement life insurance benefit from anyone. We are one of fewer than 10% of Fortune 100 companies in America who offer company-sponsored life insurance and death benefits to our retirees. Even with the recent changes we’ve made, our retiree life insurance benefit remains higher than the average retiree benefit offered by the few Fortune 100 companies in the U.S. that provide them. Life insurance is just one of the many retirement benefits we offer our former employees including pensions, 401(k) accounts and health care subsidies.”

6. Given such actions, how can AT&T say that it values employees when it makes promises to get them to retire early and then breaks the promise?

“Our comprehensive offering still exceeds the benefits typically offered by others in the industry and we are subsidizing additional policies that these retirees can purchase. The reality is we are working hard to responsibly balance the needs of the business while taking care of our current 200,000 employees and just under 500,000 retirees and their dependents who receive benefits from AT&T. It is admittedly a balancing act – one that many companies have not successfully navigated - and many other

companies do not have to consider – and it is something that we take seriously.

We are committed to running the company in a manner where we take care of our employees and retirees in a sustainable fashion, and to do that we must keep our costs in-line so we can remain competitive and attract capital.”

7. Why would you expect current employees to believe any promises you make?

“At no point have we reneged on any commitment made to any of our employees or retirees. We continue to be one of fewer than 10% of Fortune 100 companies in America who offer company-sponsored life insurance and death benefits to our retirees. Moreover, our retiree benefit package is competitive with market and still offers benefits not commonly available to retirees by other companies. We offer retirees a robust suite of post-retirement benefits – depending on eligibility – including medical, supplemental medical (CarePlus), dental, vision, life insurance, defined benefit pension, and 401(k) benefits.”

Now for a spot of analysis. The point of the Journal article was that promised benefits had been reduced after years of many people having been told they were entitled to larger amounts, and the benefits in question were life insurance and death benefits. Talking about other benefits is a distraction. When a retiree dies, the value of medical, dental, vision, and even pension benefits evaporate.

The refrain “one of fewer than 10% of Fortune 100 companies in America who offer company-sponsored life insurance and death benefits to our

retirees” doesn’t address a reduction of benefits over time. Nor does it mean that other companies outside the Fortune 100 never offer life insurance and death benefits.

“We are working hard to responsibly balance the needs of the business and our taking care of our current 200,000 employees and 500,000 retirees and their dependents,” an AT&T spokesman, Fletcher Cook, told the Journal. “It is admittedly a balancing act—one that many companies have not successfully navigated.”

AT&T’s responses still leave on the table that people were once told they would get one thing, only to find a benefit was reduced. As the Journal article mentions, top executives are exempt from the cuts.

This isn’t only about AT&T. Many other companies once offered benefits that they reduced or even eliminated. But corporations make promises and even if they legally aren’t bound to keep them, there is the issue of ethics and morals.

People take jobs based on a number of factors, including what they’re told they will receive in the future. Many accept more modest current benefits because they see the future ones as important. When a company says, “Oops, sorry, we can’t afford to do this anymore,” that may be true in one sense. But where were the efforts to meet the obligations they set?

And yet, companies want employees to be more than loyal. They want “passion” for the work being done. They desire workers who will put the company first. When this is a likely eventual outcome of promises made, why would anyone trust such employers? Especially if executives are getting different treatment. By the time things change, workers cannot go

back in time and make different arrangements. Trust is something that is cheap for one side and all too dear for the other.

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Erik Sherman

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R

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My husband retired from AT&T last year. Part of his retiree benefits include \$68,000 life insurance. We were recently informed that this amount will decrease to \$25,000 at the end of next year. It doesn't seem right that when planning and then going into retirement we were provided a benefit tha...**See more**

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Retired

14 October, 2022

SG



Erik thank you for the article. I appreciate it. I retired from AT&T March, 2021 after 39 years of service. I was taken-aback when I learned that AT&T was reducing my \$118,000 Life Insurance to \$15,000. I trusted AT&T and relied on their assertion that I was entitled to Life Insurance, and it wou...

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A



Sharon G.

11 December, 2022

Sharon,

You may be aware of this by now, but the \$2700 yearly HRA is going away in 2024. My husband currently receives this subsidy and he was sent a notice last year regarding the change in the HRA. He also attended an online session regarding this change and the medical program AT&T is rolling ou...

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RB



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Ronald Baginski

7 J

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