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Federal Judge Finds CIGNA Misled Its Employees About Pension Cuts

Late Friday, Federal Judge Mark R. Kravitz in New Haven issued a 122-page trial decision finding that CIGNA Corporation misled its employees into believing that a change to a “cash balance” pension formula was part of a program to “enhance” their retirement benefits when exactly the opposite was true.

Traditional retirement plans provide employees with monthly retirement annuities based on a percentage of highest pay and years of service. Cash balance plans offer hypothetical accounts and deposits that mimic savings accounts. Critics charge that cash balance changes are designed to mask steep benefit reductions—particularly in the benefits for older employees. The changes are also criticized for frequently including so-called “wear away” periods under which the pensions of older, longer-service employees stop growing at all until the new cash accounts catch up with the value of the annuities already earned.

The CIGNA class action alleged that CIGNA announced a cash balance change in 1998 as good news even though CIGNA knew it was cutting its employees’ pensions, including through wear aways, and saving tens of millions of dollars in annual pension expense. Judge Kravitz agreed that CIGNA misled employees, finding that CIGNA CEO Bill Taylor said that he was “pleased to announce that, on January 1, 1998, CIGNA will significantly enhance its retirement program” which indicated that benefits were not being cut—even though the Court determined “that is exactly what happened.” Judge Kravitz found that CIGNA continued to offer statements in newsletters, retirement kits and summaries that “led plan participants to believe that significant reductions in the rate of benefit accrual were not a component part or a possible result of [the plan change].” According to Judge Kravitz “CIGNA employees suffered from the lack of accurate information in CIGNA disclosures,” but “CIGNA chose not to inform its employees about these effects in order to ease the transition to a less favorable retirement program” and “avoid the employee backlash likely to result from a thorough discussion” of the retirement cuts.

Although over 30 lawsuits have been filed about cash balance conversions, this is the first case to come to trial. Judge Kravitz ruled in favor of CIGNA on a number of alternative claims about benefit calculation methods.

Counsel for the employees are Stephen Bruce and Allison Caalim of the Law Offices of Stephen R. Bruce in Washington D.C. and Tom Moukawsher of Moukawsher & Walsh, LLC in Hartford, Connecticut.