

## IBM Retirement-Related Plan Changes

On January 5, 2006, IBM announced changes to its US pension plans, effective January 1, 2008. The changes continue IBM's global strategy of shifting the focus of future retirement benefits toward the more predictable cost structure of defined contribution plans, and away from its legacy defined benefit plans.

The purpose of this article is to provide additional detail regarding retirement-related expense, including the impact of changes in pension assumptions and the expected savings from the plan changes.

### Retirement-Related Expense - 2006

(\$ in Billions)	2006 Expense	B/(W) Yr/Yr*
<b>2006 estimate @ year-end 2004 assumptions</b>	<b>2.7</b>	<b>(0.5)</b>
<b>Impact of changes @ year-end 2005</b>		
US Cash Balance Interest Crediting Rate	+0.2	(0.2)
US Discount Rate	+0.1	(0.1)
Non-US Discount Rates	+0.3	(0.3)
2005 Return on Asset Performance	(0.1)	0.1
Other Drivers	(0.1)	0.1
<b>2006 estimate @ year-end 2005 assumptions before pension plan changes</b>	<b>3.0</b>	<b>(0.9)</b>
<b>Impact of pension plan changes</b>	<b>(0.45 - 0.5)</b>	<b>0.45 - 0.5</b>
<b>2006 estimate after pension plan changes</b>	<b>2.5 - 2.6</b>	<b>(0.4 - 0.5)</b>

\* Based on 2005 estimate excluding impact of one time charges

May not add due to rounding

Based on year-end 2004 assumptions, 2006 retirement-related expense was estimated at approximately \$2.7 billion, up \$500 million year-to-year.

At the end of each year, IBM updates a series of market-related and other assumptions to determine future pension liabilities and expense. Using year-end 2005 assumptions, 2006 retirement-related expenses were projected to increase over 2005 levels by \$900 million – an increase of \$400 million over the previous estimate.

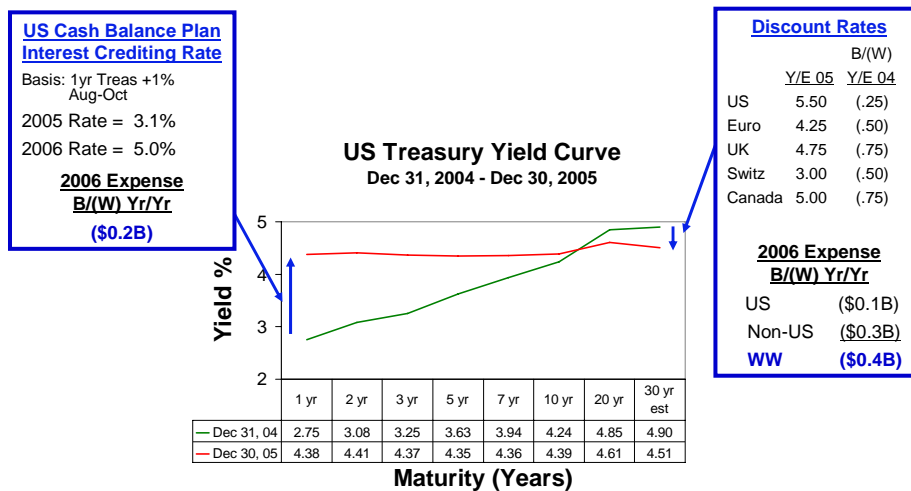
This incremental expense in 2006 is driven principally by the global flattening of the yield curve. At the short end of the US Treasury yield curve, rates have risen with the Fed Funds Rate movements. The 2006 US cash balance interest crediting rate will be 5.0%, up from 3.1% for 2005, driving approximately \$200 million of incremental expense in 2006.

At the long end of the yield curve, yields on high quality fixed income debt instruments determine the discount rates used to calculate the present value of pension plan liabilities. Since the end of 2004, these yields have fallen in many countries. As of December 31, 2005, the US discount rate was set at 5.50%, down 25 basis points from the 2004 year-end rate. Non-US discount rates have also fallen, generally by 50 to 75 basis points. Together, the discount rate changes result in approximately \$400 million of additional expense in 2006.



## Yield Curve Impact to 2006 Pension Expense

- Flattening is increasing 2006 expense at both ends



On January 5, IBM announced that the company is taking action to change US pension plans beginning January 1, 2008. In accordance with US GAAP, these changes, and the resulting savings, will be reflected in the company's financial results beginning in 2006. Also, as a result of the changes, a one-time pre-tax charge of approximately \$270 million will be reflected in fourth quarter 2005 results. This one-time curtailment charge is the only impact to the 2005 reported earnings from these pension plan changes.

Additional benefit-reduction actions are under consideration in several other countries.

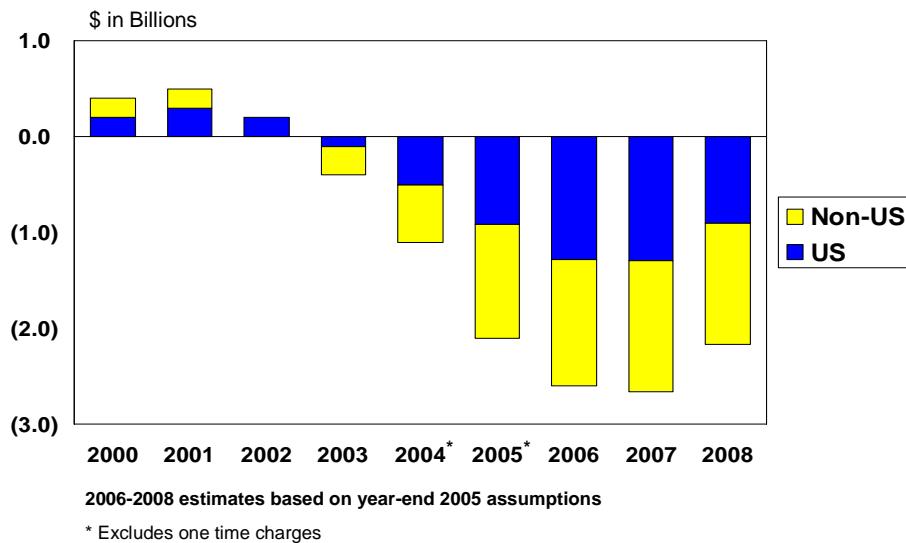
Worldwide, these plan changes are expected to yield retirement-related 2006 expense savings of approximately \$450 to \$500 million, based on year-end 2005 assumptions, including US savings of approximately \$200 million. **With these savings, worldwide retirement-related plan expense for 2006 will increase over 2005 levels by \$400 to \$500 million, excluding the one-time charges in 2005.**

Savings over the next 5 years (2006-2010) are estimated to be \$2.5 to \$3.0 billion, also based on year-end 2005 assumptions, and dependent on the implementation of the proposed non-US plan changes.

Looking forward, based on year-end 2005 assumptions, there is expected to be a modest year-to-year increase in retirement-related expense in 2007, and a year-to-year benefit in 2008.



## Retirement-Related Expense – With Actions



For more information on IBM's announcement of the US pension plan changes, go to <http://www-03.ibm.com/press/us/en/index.wss>. Reconciliation and other information in connection with non-GAAP measures referenced in this article are contained in the Form 8-K dated January 5, 2006.