

will remain MIA as long as pensions siphon off money that could be used for new business investment. "Why is this administration, which is clearly interested in economic recovery, proposing something that would have such a negative effect?" says Jim Klein, president of the American Benefits Council, an industry group. Now accountants are proposing changes that will force companies to pour more cash into a new type of retirement plan that blends a traditional pension with a 401(k).

Retirees may love their monthly checks, but business is beginning to wonder if it's time to put pensions out to pasture. When traditional pensions first came into fashion in the postwar '50s, the American work force was young and offering a paid retirement plan was a good recruiting tool. But a half century later, retirees nearly outnumber workers, and pensions have become a costly burden borne mostly by old-line industries, like autos, airlines and steel. General Motors, for example, has piled more than \$50 billion into its retirement fund

over the past decade, and it still has the nation's largest unfunded pension liability of \$19.3 billion. With 2.5 retirees for every worker, analysts say that GM's "legacy costs" add \$1,700 to each car it builds. No wonder younger companies want nothing to do with traditional pensions and instead ask employees to share the retirement risk in 401(k) plans (which have their own problems, as Enron proved).

Today 44 million Americans are covered by 32,000 traditional pension plans, down from 114,000 plans in 1985. And they don't always get what was promised. Retired US Airways pilot Michael Fairley just went to work selling lighting because his pension was cut 67 percent to \$23,000 a year after the airline went bankrupt. "At 60," says Fairley, "who thought I'd be living paycheck to paycheck again?"

Given hard-luck stories like that, it's hard for some to feel sympathetic for the corporate brass's poor-mouthing. After all, say critics, those execs are complicit in their own pension woes because they developed

a bad case of irrational exuberance, investing an average of nearly two thirds of their plans in stocks. "A company that puts its pension assets in equities is basically playing roulette," says Boston University finance professor Zvi Bodie, who urges pensions be funded with long-term bonds.

Bethlehem Steel's pension plan landed on double-zero this year. When Bethlehem first began offering pensions just after World War II, more than 300,000 workers filled its teeming Pennsylvania steel mills. By the time the company liquidated this spring, there were just 12,000 workers supporting 100,000 retirees and its pension debt topped \$7 billion. "The retiree liabilities were crushing the business," says CEO Steve Miller, who sold off the mills for \$1.5 billion and terminated the retirees' health and pension plans. Shortly after, an e-mail showed up in Miller's IN box that read: "May you motherf---ers rot in hell." His response: "What part of broke don't you understand?" There's no polite way to say it: in this fragile economy, pensions are a drag.

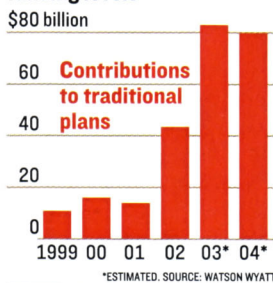
With BARNEY GIMBEL



Cash Drain

Companies are expected to pour \$83 billion into their pension funds this year.

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A New 'Wind Tunnel' for Companies

BY RANA FOROOHAR

Companies are always trying to predict the future. These days, the field of experimental economics—which replicates market and business scenarios in the lab—is giving the crystal ball an upgrade. Hewlett-Packard scientists, for example, have created mini-markets that allow its executives to bet on, among other things, future sales and revenue. The internal futures markets do a better job of predicting than simply polling the executives because anonymous bids bypass office politics, and cash rewards (up to \$250 for the best bets) provide extra incentive. Another of its fortune-telling exercises uses Stanford students acting as HP execs, retailers and suppliers in a kind of Simbusiness test of new strategies.

Remember the Defense Department's ill-fated proposal to create a

terror futures market this year? The tone-deaf idea was quickly shot down, but the underlying science is being explored by a handful of large companies like IBM, Microsoft and Ford. Experimental economics is "a wind tunnel for business," says HP senior scientist Kay-Yut Chen.

Testing economic theories through experiments sounds like a no-brainer, but it wasn't always so. Vernon Smith, a professor at George Mason University, began doing it in 1956. Over the years, he and others like Caltech professor Charles Plott crafted experiments that proved markets' predictive power. Their work has influenced policy decisions on issues like airport-landing rights. Last year Smith was awarded the Nobel Prize.

Now big business wants to know more about the research that the Swedes say "changed the direction of economic science." Earlier this month Microsoft invited

Net Exchange, the company that developed terror futures, to brief researchers on predictive markets. Despite the Pentagon fiasco, terror futures may be reborn in the private sector: Net Exchange is fielding offers from investors who want to sell results from a geopolitical risk market to insurance and financial-service firms. Net Exchange and others are also looking to build predictive markets for Big Pharma. Incentive Markets in Boston claims to have set up an internal futures market for a top-10 drug company that allows employees to bet on the success of products in the pipeline.

Plott, the Caltech professor, recently created a new bidding system for auto auctioneer Manheim. Trial results showed a 9 percent

increase in the price of each car. Kay-Yut Chen of HP runs tests that have resulted in new incentives for retailers and more effective penalties for price cutters (HP now trims retailers' marketing funds). HP recently showed Ford that even in tough times, customers are more willing than the automaker thought to buy cars they had leased (buyers want to stick with a known quantity). Ford has signed up for an even bigger project. The crystal ball suggests HP may be on to something.

With MICHAEL HASTINGS



MATH WHIZ: HP's Chen cracks the codes