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HEADLINE: More Pension Pain

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BODY:
Last year investors pummeled big-company stocks because of problems with their **pension plans.** By the end of 2002 large corporations owed $ 1.2 trillion to current and future retirees--about $ 225 billion less than they had on hand.

With the S&P 500 up 17% so far this year, you'd think the situation would have improved. But a new study by Credit Suisse First Boston (the former home of Frank Quattrone) shows that it is actually getting worse. The reason is persistently low interest rates. Companies use a so-called discount rate, which is tied to interest rates, to calculate the cost of **funding** retiree pensions. When the discount rate declines, the calculated value of a company's pension obligations rises to reflect lower interest rates. CSFB accounting analyst David Zion estimates that 92% of all **pension plans** offered by S&P 500 companies are now underfunded, vs. 24% before the bubble burst. Zion thinks the situation will worsen through 2004. That's bad news for earnings, especially at old-line manufacturers and union strongholds like Ford, Boeing, and Raytheon. By the end of 2003 Congress is expected to approve a bill that would temporarily reduce the amount companies must pay to their plans; for now, managers hope that higher interest rates and a bull market will come to the rescue. Stay tuned. --Janice Revell

GRAPHIC: COLOR CHART: FORTUNE CHART/SOURCE: CSFB, Pension shortfall for S&P 500 plans

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