

Kodak gets court OK to end retiree benefits on Dec. 31

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Hurricane Sandy disrupts court

Last week's devastating storm and flooding of lower Manhattan has played havoc with U.S. Bankruptcy Court operations.

The Chapter 11 cases of both Eastman Kodak and Hickey Freeman parent company HMX are being handled there.

Monday's

Kodak hearing regarding post-retirement benefits had twice been delayed because of the storm. The courthouse as of Monday remained closed, and the Kodak hearing was done via telephone.

The building "has power and is clean," but the steam heating system is out, U.S. Bankruptcy Judge Allan Gropper said. He said he doubted whether the courthouse will be usable before December.

Most of Rochester grew up with an Eastman Kodak Co. that was the global king of photography and where, if you got hired, you were taken care of for life.

Today, those ties to the past are largely severed. The struggling company has all but shut down its digital camera business and is selling its camera film business. And Kodak on Monday received the approval many retirees had been dreading — a federal bankruptcy judge OK'd the company's plan to cut off health benefits by year's end.

"There are some older people in denial about all this," said Dale Dewey of Victor, who retired in 2006. "They think Kodak will continue to care for them."

The \$10 million a month spent on retiree

benefits had been in Kodak's cross hairs since the moment the company filed for Chapter 11 bankruptcy protection in January. Kodak indicated then that one of its major financial burdens was the money spent on post-retirement benefits such as health coverage, life insurance and the Survivor Income Benefit.

While Kodak historically provided generous benefits to workers and retirees, "the cost has become unsustainable," said Michael H. Torkin, an attorney with Kodak's bankruptcy legal counsel, the New York City firm of Sullivan &

In a statement, Kodak said the benefits cut “will significantly reduce one of the company’s most substantial legacy liabilities, marking another major step toward Kodak’s successful emergence from Chapter 11.” The company hopes to exit bankruptcy in 2013.

Kodak also said that while it “understands and appreciates the contributions of our retirees ... and recognizes that this action will pose challenges,” ending the benefits “is one of the many necessary and critical steps to put the company on a path to emerge as a profitable, sustainable company.”

Approximately 56,000 people, including retirees, dependents and survivors, rely on Kodak for some post-retirement benefit

“People are resigned to the fact that they are losing their benefits,” said Art Roberts, president of Kodak retiree group EKRA Ltd. “The only good thing is that people are beginning to realize that this is real. EKRA has a membership of 5,000 but Kodak has estimated there are 56,000 retirees affected. My worry is for those between 5,000 and 56,000, those who may not know what is happening.”

Kodak first moved to reduce retiree benefits in March, when it proposed eliminating the Medicare Advantage plan it provides to post-1991 retirees. But the company backed away from that proposal after objections from retirees and prodding by U.S. Bankruptcy Judge Allan Gropper, with the end result being formation of a committee to represent retirees’ interests in the Chapter 11 case.

The benefits cut Gropper approved Monday emerged from negotiations between Kodak and that retiree committee.

Under the settlement, Kodak will provide cash payments totaling \$7.5 million and a bankruptcy claim of \$635 million. Whatever amount Kodak eventually pays toward that claim — either when it gets out of bankruptcy or, in a worst-case scenario, if the company is liquidated — will then be used to pay for continuation of some retiree benefits in 2013 and beyond. Those benefits will be administered by the retiree committee.

Much of the hearing Monday involved attorneys for Kodak and the retiree committee laying out the rationale for their agreement, and a retiree, Martin O. VanScoter of Spencerport, arguing that the court should reject it.

Gropper, whose court is in New York City, ultimately rejected VanScoter’s argument that the retiree committee failed by not getting retirees’ input on the settlement. The judge said such a move was neither feasible or legally necessary. He also tossed out VanScoter’s arguments that the settlement wasn’t fair and is too vague.

Although bankruptcy “can have a particularly painful effect on retirees,” Gropper said, Kodak’s actions were legal, fair and reasonable.

Carol Connor Cohen, a partner with the retiree committee’s law firm, Arent Fox LLP, said that a key provision of the agreement requires the company to set up town hall-style meetings and a call center to disseminate information to retirees and to get feedback on how the money that Kodak is setting aside might be used. But she said much of it likely will go to cover some of the lost Survivor Income Benefit spending.

A Kodak spokeswoman said the company doesn’t yet have information about the town halls and other means it will use to get word to retirees.

Currently, about 6,500 widows and widowers receive a portion of their deceased spouse’s pension

payments through the Survivor Income Benefit. Of the \$1.2 billion liability that total retiree benefits represent on Kodak’s financial books, the Survivor Income Benefit represents \$510 million.

The other largest expense to Kodak is the health coverage it provides almost 32,000 Medicare-eligible retirees. That

amounts to a \$440 million liability on Kodak's books.

Henry Isaacson of Webster, who retired from Kodak in 2001 after 31 years, is among those who now will have to look elsewhere if they want to replace the lost health insurance.

"We'll have to dig a little more into retirement. We'll be OK," Isaacson said. But he said that retirees not yet eligible for Medicare "are going to pay through the nose."

Kodak's move to eliminate the benefits came as no surprise to Isaacson, who was told when he was hired in 1969 that none of his benefits was guaranteed.

"I don't know how many other people were told that," he said. "I always had a good memory. Tell me something like that, I don't forget it. That stuck with me."

Others were similarly resigned, but pointed fingers at the company for having gotten into its current financial dilemma.

"It's disappointing but inevitable," said Richard Diehl of Greece, a Kodaker for 36 years. "It'll hurt for awhile until I qualify for Medicare.

"What really bothers me is that it didn't have to be this way."