

An unhappy Kodak moment

The Eastman Kodak Company, founded in 1889, became an American icon. Kodak brought photography to ordinary people with roll film, the Brownie and Instamatic cameras, and Kodachrome. The Kodak brand was widely recognized, and for ten years it has adorned the theater where the Oscars are presented.

On January 19, Kodak put itself in bankruptcy court.

The move, though perhaps expected, was nevertheless disquieting. As recently as 2003 Kodak employed 64,000 people; the work force already has fallen to 17,000. Kodak engineers invented the first digital camera, but the company failed to capitalize promptly upon their achievements. Kodak generally has been the follower, not the leader, in the digital camera industry. The move to digital imaging led to a collapse in demand for film, which had long been the company's "cash cow." That, plus the recession, paved the path to bankruptcy. The latest reports say that Kodak has asked to have its name removed from the Oscars theater to save the \$4 million annual fee.

Lessons for investors and retirees

For those who grew up in the 1950s and 1960s, bankruptcy for a company of Kodak's stature might seem unimaginable. For investors, Kodak was the bluest of blue chips. But there is no investment that is good forever. Just one company from the original Dow Jones index is still in business. That's why portfolio management cannot be taken for granted.

One goal of entering bankruptcy may be to reduce pension costs. There are 63,000 workers and retirees covered by Kodak's two pension plans. The plans have \$4.9 billion in assets, but have promised benefits of \$5.6 billion. The plans are insured by the Pension Benefit Guaranty Corporation, which would cover most retirees' pensions in full. The insured benefit is capped at \$4,653.41 per month.

Unfortunately for American workers, the trend of closing down traditional pension plans in the private sector is not slowing down. 152 underfunded plans were taken over by the PBGC in 2011, and about that number in 2010 as well. Maximum deferrals to 401(k) plans can help to make up the difference. Active workers also should be working hard to build a retirement capital fund of already taxed assets to enhance their retirement security.

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