

Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email attachment	Memorandum to Gene Sperling/ Lael Brainard from Bruce McNamer and Natsha Bilimoria. Re: D'Alema visit. (partial) (1 page)	03/05/1999	P3/b(3)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
OPD ([Pension Reform])
OA/Box Number: 250000

FOLDER TITLE:

[01/19/1999 - 08/05/1999]

2014-0226-F
ab1301

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or
financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President
and his advisors, or between such advisors [(a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of
personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed
of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C.
2201(3).

RR. Document will be reviewed upon request.

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of
an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
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b(7) Release would disclose information compiled for law enforcement
purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of
financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information
concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Douglas D. McCormick (CN=Douglas D. McCormick/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:19-JAN-1999 11:43:49.00

SUBJECT: TSP Contributions

TO: Sarah Rosen (CN=Sarah Rosen/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

CC: Lisa B. Fairhall (CN=Lisa B. Fairhall/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Mark D. Menchik (CN=Mark D. Menchik/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TEXT:

Sarah - -

I am the program examiner in OMB for the Thrift Savings Plan account. I want to bring to your attention a policy matter on the TSP that needs to be clarified. My understanding is that the FY 2000 pension reform legislation includes a provision that would allow newly-hired Federal employees to make an immediate contribution to the TSP. What is not clear is whether this same proposal would also call for immediate agency contributions.

As currently written (by Treasury, I believe), the proposal would not specify immediate agency contributions. At the PAD level in OMB (and also in previous years), OMB supports immediate agency contributions. My understanding is that you were going to send a memo to Gene Sperling to get a policy call on this. Has that happened?

Thank you for your attention to this matter. It needs to be settled so that the proposal is accurately described in the budget.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Marty J. Hoffmann (CN=Marty J. Hoffmann/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:19-JAN-1999 12:58:57.00

SUBJECT: Democratic Legislation

TO: Jennifer L. Klein (CN=Jennifer L. Klein/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TEXT:

Top 5 Democratic Package introduced by Daschle

1. S. 6, Patient's Bill of Rights

2. S. 7, Education

3. S. 8, Income Security
Minimum Wage
Marriage Tax Penalty
Pay Equity
Pension Reform

4. S. 9, Crime
Juvenile Justice
Extension of COPS
Hate Crimes
VOWA II
.08

5. S. 10, Seniors
Medicare buy - in
Administration's long-term care proposal
Reauthorize Older Americans Act

(I will send 7 others introduced shortly)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa B. Fairhall (CN=Lisa B. Fairhall/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:20-JAN-1999 13:54:34.00

SUBJECT: Re: Please forward to Pensions WG

TO: Sarah Rosen (CN=Sarah Rosen/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: cordelia w. reimers (CN=cordelia w. reimers/OU=cea/O=eop@eop [CEA])
READ:UNKNOWN

CC: stuart.sirkin@pbgc.gov (stuart.sirkin@pbgc.gov [UNKNOWN])
READ:UNKNOWN

CC: sonya matthews (CN=sonya matthews/OU=opd/O=eop@eop [OPD])
READ:UNKNOWN

CC: Bruce D. Long (CN=Bruce D. Long/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: mark d. menchik (CN=mark d. menchik/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

CC: mark.iwry@treas.sprint.com (mark.iwry@treas.sprint.com [UNKNOWN])
READ:UNKNOWN

CC: douglas d. mccormick (CN=douglas d. mccormick/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

TEXT:

We received from Mark Menchik your request for comments on the two pension issues affecting surviving and former spouses of Federal employees.

While as a policy matter we support the proposals, we believe there are some strong arguments for not including them in the package at this time:

We have not had an opportunity to assess the budget implications. The last time we considered these proposals was several years ago. A quick search of our files indicate that these proposals would probably either not be PAYGO, or if they are, the costs would be minimal. However, we would not be comfortable with making this assertion without checking it out more carefully, and having any estimates updated. In any event, If there are costs, it is too late to incorporate them in the budget.

The budget text currently does not include a description of the proposals. The various budget chapters have largely been written, and our understanding is that it is too late to add anything at this point.

Putting them in the larger pension reform package could obscure their importance. If we want to highlight them, it might be better to put them

forth later in a separate proposal.

To summarize, we believe the proposals have merit and we would almost certainly support them, but we believe they should be proposed later when they could be highlighted and their cost implications could be fully investigated.

Please let me know if you need any more information.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Cynthia A. Rice (CN=Cynthia A. Rice/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:27-JAN-1999 11:05:06.00

SUBJECT: S.8 Income Security Act

TO: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Mary L. Smith (CN=Mary L. Smith/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: Andrea Kane (CN=Andrea Kane/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: Thomas L. Freedman (CN=Thomas L. Freedman/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: J. Eric Gould (CN=J. Eric Gould/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:

Elena had asked for a weekly-like right up of the first day D and Rs bills in our areas. The only possibility in our was S.8, the Income Security Act, but as noted below it appears to be all NEC expect perhaps equal pay -- Tom/Mary?

----- Forwarded by Cynthia A. Rice/OPD/EOP on 01/27/99
11:03 AM -----

J. Eric Gould 01/27/99 11:00:14 AM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP

cc:

bcc:

Subject: Re: Would you check this out this morning?

Daschle introduced it with Sen. Dem. leaders. It seems to be purely within the realm of NEC . . . increase min. wage, repeal marriage tax penalty, wage discrimination, pension reform, and a proposal to prohibit any changes to the pay-as-you-go rule in the Senate until Social Security is addressed.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen (CN=Sarah Rosen/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:11-FEB-1999 18:58:01.00

SUBJECT: Re: Reminder--comments on Labor Pension Reform Draft Bill ARE DUE

TO: Melissa N. Benton (CN=Melissa N. Benton/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

TEXT:

Melissa -- I will rely on the agencies for the technical language issues of these provisions -- I trust them to make sure that the language is consistent with what we announced today. THANKS.
Any idea from Treasury when we'll see their drafts. Whenever I mention it, Mark Iwry looks overwhelmed.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Stephen G. Elmore (CN=Stephen G. Elmore/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:26-FEB-1999 17:26:23.00

SUBJECT: TSP Reform Leg.--Share Informally w/ Morella?

TO: Sarah Rosen (CN=Sarah Rosen/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: James J. Jukes (CN=James J. Jukes/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Lisa B. Fairhall (CN=Lisa B. Fairhall/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Janet R. Forsgren (CN=Janet R. Forsgren/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Douglas D. McCormick (CN=Douglas D. McCormick/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Bruce D. Long (CN=Bruce D. Long/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:

Yesterday, the House Government Reform Civil Service Subcommittee approved Rep. Morella's bill to provide immediate TSP participation and rollovers from other 401(k)-type plans (HR208). I understand that the chief differences between this bill and the Administration's proposal (cleared, but on "hold") are that: (1) the Administration's proposal would provide immediate employer matching contributions; and (2) the Administration's proposal would not take effect until the end of FY 2000.

Because HR208 is moving in Congress and our proposal is on hold until a decision is made about transmission of the pension reform package, the Federal Retirement Thrift Investment Board -- which drafted the Administration's proposal -- would like to informally share the approved language with Rep. Morella. Tom Trabucco/Thrift Board believes that Rep. Morella may be receptive to the Administration's proposal, but might not appreciate learning about it much later in the process for consideration of HR208. He believes that, if they share the Administration's proposal with her soon, she might be willing to introduce a substitute or appropriate amendment(s) during full Committee consideration of HR208. Would you object to the Thrift Board's sharing the Administration's proposal informally with Rep. Morella now?

Please call if you have questions (5-3924). Thank you.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Bruce McNamer (CN=Bruce McNamer/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 3-MAR-1999 18:59:59.00

SUBJECT: Italy

TO: Natasha F. Bilimoria (CN=Natasha F. Bilimoria/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Brian A. Barreto (CN=Brian A. Barreto/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:

Attached is the cover memo for Italy pack. Natasha will be looking at both cover memo and at materials attached for pension reform to make revisions and additions. Brian if you could please coordinate with her before delivering pack to Gene, that would be great. Natasha, I have included your name on this version of the memo to Gene (feel free to associate yourself with this or not... makes sense if you do)

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D65]MAIL46408766B.036 to ASCII,
The following is a HEX DUMP:

MEMORANDUM TO GENE SPERLING/LAEL BRAINARD

From: Bruce McNamer
Natasha Bilimoria

Re: D'Alema visit

Date: March 5, 1999

Economic issues do not figure large in our overall agenda with the Italians, and we have few real disputes with them. On financial architecture issues, they are generally more sympathetic to, if more moderate than, the "German-French" outlook (with more affinity on Interim Committee enhancement). That said, however, they have not been very outspoken in asserting those views. The same is true for trade issues where they are part of a larger EU bloc (beef hormones, bananas). The most notable outstanding bilateral trade issue relates to IPR. Points to stress include:

- The United States cannot indefinitely be the main engine of economic growth, and we look to our G-7 allies to strengthen demand and thus assist emerging economies' recovery
 - Italy's growth rate through the 90's has been the most anemic among G-7 (1.3%; 1.5% last year. However, we should avoid pushing too hard and too specifically for fiscal stimulus by the Italians. Our emphasis should be, rather, on the Europeans more generally (Overall monetary and fiscal easing, lowering trade barriers)
 - Anemic growth in large part attributable to austerity required to bring Italy into EMU. In this sense, the Italians are to be congratulated for political courage and genuine sacrifices required to bring this about.
- We believe that sound economic policies are the best guarantee of exchange rate stability
 - The GOI does not support currency target zones. In the end they are likely to support the more moderate (and at present more vague) French calls for enhanced exchange rate coordination, which we continue to oppose.
- While we are committed to making the IMF Interim Committee more effective, we don't want to undermine the IMF and want to include the right countries in our discussions of architecture reform.
 - Finance Minister Ciampi is currently the head of the IMF Interim Committee. This provides the Italians added incentive to advocate for French-type reforms to the Interim Committee (i.e., emphasizing the "legitimacy" of the Committee as the locus for dialogue on both IMF issues and on broader systemic issues)
- We urge PM D'Alema to continue to press for "fast track" passage of anti-piracy legislation
 - Copyright piracy (videos, music, software) continues to be a serious problem in Italy, costing U.S. industry and estimated \$600 million per year. New legislation which includes criminal penalties for such violations is now stalled in Chamber of Deputies. D'Alema's government has come out in support of this legislation. We hope to encourage this continued and active support (see USTR memo for further detail)

Economic background:

- 1997 GDP \$1.1 billion; population 57 million; per capita GDP 1997 \$20,000
- Italy's economy is the slowest growing among the Euro-11 and is likely to remain so through next year. In fact, Italy has been the slowest growing G-7 country in the 1990s, growing at a 1.3% compound rate (compared to Japan at 1.5%).
 - In part reflects substantial fiscal tightening required to meet EMU requirements for membership
 - 1998 GDP growth of 1.5%; 1999 projections of 1.8% growth
- Unemployment continues to bedevil policy makers - large structural basis and marked disparities between North and South (around 23% in the southern third of the country vs. 6% in the North and 10% in central Italy)
- Inflation at 1.5-2.0%

DOMESTIC AGENDA

- As with other Euro leaders, high unemployment is at the top of D'Alema's domestic agenda
 - Root causes are structural, including difficulty in firing workers, generally high wages/benefits (esp. pensions), relatively low worker mobility. (Interesting note: until enactment of legislation on part-time work last year, there were no temp agencies in Italy. Manpower set up shop within the last year)
 - D'Alema in December announced with some fanfare his "National Labor Agreement" -- an agreement worked out between labor, management and the government to encourage investment and job creation through lessening employers' burden of taxes and contributions, an easing of some labor laws, and incentives for investment. Not at all clear that this will in fact have substantive long-term effects.
 - 35 hour work week - Legislation exacted from Prodi in 1997 by Communists as price for their commitment to his 1998 budget. Prodi was slow to move on implementation, however, and this was among the criticisms that led to downfall of his government. D'Alema's government has not been any more aggressive on implementation of the legislation. Thus far, however, criticism has been muted.
- Privatization - D'Alema's government has continued privatization process, most prominently of late with Enel, the state electrical utility. Eni, the state natural gas company, looks to be next on privatization bloc.
- Immigration law reforms
 - Recent right-wing criticism of D'Alema's proposal to liberalize legalization process for illegal aliens who can prove accommodation and a job (affecting some 270,000 people)
 - D'Alema's government has, however, pledged to crack down on illegal immigration and to impose tighter immigration quotas
- **Pension reform** - As with our own Social Security Reform, the Italians have their own looming long-term pension crisis. GOI has enacted a series of pension reforms in 1992, 1995 and most recently under PM Prodi in 1997. While it is generally acknowledged that while helpful, these reforms do not go nearly far enough to address the full dimensions of the problem, D'Alema's government has not publicly raised the issue, nor made it part of

its domestic agenda.

- Italy's birth rate is the lowest in the world - the birthrate among women of childbearing age is 0.8%, compared with a population replacement rate of 2.1%.
- The number of pensioners is set to equal the size of the total workforce by 2020.
- Italy's pension benefits historically among the most generous in the world
 - "seniority pensions" paid regardless of age after a given number of years in service allowed some people to retire in their 40s (prior to 1997 legislation)
 - Retired workers receive payouts worth about 80% of their final salary, rather than being based on total contributions (this has been modified for workers now in their 20s and 30s).
- OECD estimates that current pension obligations amount to four times GDP
- While GOI spending on social welfare (roughly 25% of GDP) is not extremely high relative to other EU states, it is disproportionately skewed to pension payments. In 1997, pension payments amounted to 14.8% of GDP, about 1/3 above EU average. Spending on unemployment and disability benefits, family support and labor market programs is about 4% of GDP, about half the EU average.
- I have attached a good deal of background material on pension issue, including a two-page analysis prepared by SSA, materials sent from Embassy, and news articles

DOMESTIC POLITICS

- D'Alema's government is Italy's 56th since the Second World War (54 years ago)
- D'Alema is a former Communist who heads the Democrats of the Left (DS) party, the largest party in Italy.
- His center-left coalition ranges spectrum from former hard-line Communists to Christian Democrat centrists and is nearly identical in composition to that of PM Prodi
 - Prodi brought down by the Communists and their refusal to vote for his budget last October; D'Alema was able to complete work on the budget bill
- While Parliament's term does not expire until April 2001, few observers believe D'Alema can hold together a fractious coalition until then
- Prodi (though a coalition member) is building a new party (Democrats for the Olive Tree) and meeting with unexpected success (e.g. his party is now predicted to gain 10% of votes in June's European elections)
- D'Alema's government faces several tests in the months ahead:
 - European elections will be held in June. Each political party in Italy has the option of nominating candidates for those seats. Thus, the election results can be seen as a referendum of sorts on any one party and on D'Alema's coalition
 - Italy's current proportional representation system will be changed by popular referendum on April 18 unless legislation accomplishing much the same thing is enacted prior to that date. D'Alema has offered legislation, which is expected to easily pass. However, there is opposition from members of his own coalition, among others, and it is as yet unclear what effect the entire process will have on the coalition. Ultimately, the new system will have a stabilizing effect on Italian

Withdrawal/Redaction Marker

Clinton Library

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OA/Box Number: 250000

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[01/19/1999 - 08/05/1999]

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concerning wells [(b)(9) of the FOIA]

governance as it will deprive small parties of their tremendous power as swing members of governing coalitions.

- Parliament will elect a new President this spring. The ruling coalition will be weakened if it cannot agree on a common candidate.

Included herein are:

Draft of Potus memo and talking points

(b)(3)

Treasury - macro overview, financial architecture issues, EMU status, Russia status

USTR on IPR

State - domestic political situation, domestic economic situation, other papers

Background on European Government (EU)

Background news articles on Italian domestic/political issues

Background on pension reform - SSA piece, Embassy papers, news stories

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen (CN=Sarah Rosen/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:22-MAR-1999 12:56:58.00

SUBJECT: Re: LRM MNB31 - - TREASURY Testimony on Pension Reform

TO: donald.wellington (donald.wellington @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: deborah.walker (deborah.walker @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: mark.iwry (mark.iwry @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: harlan.weller (harlan.weller @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

TEXT:
----- Forwarded by Sarah Rosen/OPD/EOP on 03/22/99 12:57
PM -----

Mark D. Menchik 03/22/99 12:29:12 PM

Record Type: Record

To: Melissa N. Benton/OMB/EOP
cc: Sarah Rosen/OPD/EOP
Subject: Re: LRM MNB31 - - TREASURY Testimony on Pension Reform

Here are my edits. I've tried to address Sarah's concerns with edits that can probably supplement others'. In various places, I've tried to make the tone more positive, less categorical, and more flexible. I've also edited out "skeptical" -- which as often used suggests an overwhelmingly negative attitude -- and replaced that with an emphasis on the specific concerns voiced. W&M can do something about those specific concerns.

Page numbers on the incoming testimony would have been helpful.

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D31]ARMS135741191.036 to ASCII,
The following is a HEX DUMP:

DRAFT
3/19/99, 5 pm

For Release Upon Delivery

Expected at 3:00 pm

March 23, 1999

TESTIMONY OF DONALD C. LUBICK

ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to speak with you today regarding pension issues. In accordance with the focus of this hearing, as described in the Subcommittee's announcement, our testimony will address issues relating to pension coverage and participation, particularly for low-income and part-time workers, women, and others who may not be adequately served by current law, ways to improve retirement benefits for workers and to improve the portability of pension benefits, and simplification of regulatory requirements, including the President's proposals to promote expanded retirement savings, strengthen the private pension system, and increase pension security and portability.

The Nation's private pension system has accomplished a great deal for many Americans. For XX million retirees, amounts received as pension benefits have been important in enabling them to maintain their standard of living in retirement. Over XX trillion in assets are now held in retirement accounts, an XX-fold increase since 19YY. Employer-provided pensions currently benefit some 50 million workers, [and a majority of families reach retirement with at least some private pension benefits - supply data].

Enhancing pension coverage and security, improving retirement benefits for workers, improving portability, and simplifying the law in this area have been a major focus of the Clinton Administration since the President entered office in 1993. Working together in a bipartisan fashion over the past six years, the Administration and Congress have enacted important legislation that has furthered these objectives. We look forward to working with Congress and especially with this Committee to build on those past accomplishments. Before proceeding further, it worth taking a moment to highlight several of those accomplishments.

Past legislative accomplishments

In 1993, the Administration submitted legislation that was enacted as the Retirement Protection Act of 1994, to protect the benefits of workers and retirees in traditional pension plans by increasing funding of underfunded defined benefit plans and by enhancing the Pension Benefit Guaranty Corporation (PBGC) early warning and enforcement powers.

In 1995, the President introduced a package of pension simplification proposals at the White House Conference on Small Business. These proposals were targeted toward expanding coverage, particularly by increasing the number of small employers that offer retirement plans for their employees and increasing pension portability. Many of these proposals -- or variations on them -- were ultimately enacted as part of the 1996 Small Business Job Protection Act. These pension provisions, the end product of seven years of bipartisan efforts, represented the most significant changes to the pension laws since the 1986 Tax Reform Act. Among the most important of these changes were

- Creation of a new, highly simplified 401(k)-type retirement savings plan for small business (the "SIMPLE"), [which is proving to be quite popular with small employers]
- Simplification of the nondiscrimination testing for 401(k) plans and the development of a design-based safe harbor permitting employers an alternative to 401(k) nondiscrimination testing;
- Expansion of 401(k) plans to nongovernmental tax exempt entities;
- Elimination of the "family aggregation" rules that restricted the ability of family members of small business owners and of other highly compensated employees to save for their own retirement; and
- Elimination of the section 415(e) combined limits on benefits and contributions applicable to employees who participate in both defined benefit and defined contribution plans.

[additional simplification provisions to be supplied]

In 1997, the Taxpayer Relief Act included a number of other provisions to simplify the pension rules and expand the tax incentives for retirement savings, including

- very significant expansions of IRAs,
- repeal of the 15% excise tax on very large retirement distributions from qualified plans and IRAs, and
- an increase in the full funding limitation applicable to defined benefit pension plans.

We can take still further steps to promote retirement savings and improve and strengthen our pension system by enacting legislation that will expand the number of people who will have retirement savings (particularly moderate- and lower-income workers not currently covered by employer-sponsored plans), improve workers' retirement benefits, and make pensions more secure and portable for workers. Our focus should be on covering those who are left out of the current system and on improving the level of benefits for those whose current benefits are very modest.

Retirement Savings and Tax Policy

Background

Under our pension system, qualified plans are accorded special favorable tax treatment. A sponsoring employer is allowed a current tax deduction for contributions to the plan, within specified limits, while participating employees defer inclusion of contributions and earnings in gross income until they are distributed from the plan, notwithstanding that the plan is funded and the employee's rights to the benefits are vested. Neither the employer nor the employee (nor the trust) is taxable on earnings as they accumulate in the plan.

These important tax preferences for qualified plans are **in large part** designed to encourage employers to provide retirement benefits for moderate and lower-paid workers. It is often noted that this has the effect of reducing the need for public assistance with respect to economic security in retirement and reduces pressure on the Social Security system. See, e.g., Joint Committee on Taxation, *Overview of Present-Law Tax Rules and Issues Relating to Employer-Sponsored Retirement Plans* (JCX-___-99), March __, 1999.

Standards for evaluating retirement savings proposals

Accordingly, any new or additional tax subsidies for retirement savings should meet a few important standards. First, any new tax preference should create incentives for new coverage and new saving, rather than merely shifting existing savings from less tax-advantaged sources to qualified plans. As an incentive for new saving, an approach targeted to moderate- and lower-income people is likely to be more efficient. In response to new or additional tax incentives, higher-income, higher-wealth individuals are more likely to shuffle their savings from one vehicle to another -- instead of actually saving more. People with fewer existing savings and financial resources may be less likely to engage in such shifting, and more likely to respond by actually increasing their saving.

Second, any new incentive should be progressive, i.e., it should be targeted toward helping the millions of hardworking moderate-income and lower-income Americans for whom saving is most difficult. Incentives that are targeted toward moderate- and lower-income people are consistent with the purposes of the pension tax preference and serve the goal of fundamental fairness in the allocation of public funds. The aim of national policy in this area should not be the simple pursuit of more plans, without regard to the resulting distribution of pension and tax benefits **and their contribution to retirement security** [links to PBGC and PWBA testimony]. The object of these tax preferences is not to deliver the bulk of the benefits to those who need them least.

Third, pension tax policy should be mindful not only of the breadth but of the quality of coverage. It is desirable to avoid measures that would accelerate the trend away from employer-funded contributions (whether defined benefit or defined contribution) and toward arrangements that shift the burden of saving onto the worker through programs that only involve elective salary reduction.

Finally, any new or additional tax preferences must not undermine our fiscal discipline.

The President's Proposals

The President has made clear that in this era of surpluses we must save Social Security first. He proposes to commit 62 percent of the unified surplus for the next 15 years to Social Security and an additional 15 percent of the surplus to Medicare to assist retired workers in maintaining their health security.

While protecting the integrity of Social Security is our first priority, in this era of economic growth and budget surplus, it should be possible to take other steps to enhance the retirement security of American workers by promoting new retirement savings for workers who currently lack coverage. The President proposes to devote 12 percent of the unified surplus to establishing a new system of Universal Savings Accounts (USAs).

The President's fiscal year 2000 budget also includes a number of proposals that will promote further expansion of workplace-based savings opportunities, particularly for moderate and lower-income workers not currently covered by employer-sponsored plans. These proposals, which are spelled out in greater detail below, include

- Promoting IRA contributions through payroll deduction
- Providing a small business tax credit for expenses of starting a new retirement plan
- Creating the SMART -- a simplified defined benefit-type plan for small business
- Improving portability among different types of plans
- Changing vesting rules and annuity options to improve retirement security for women

The USA account proposal and the pension proposals in the FY2000 Budget reflect the principles that any new tax subsidies for retirement savings should be carefully targeted and should address the reasons small businesses have lower rates of pension coverage. To the extent possible, we should avoid providing additional tax subsidies for saving that would occur in any event -- shifting of savings -- which is often the case when the incentives are directed to higher-income individuals.

With this background in mind, I would now like to address the issues identified in the Subcommittee's announcement as the focus of this hearing.

Improving Portability of Pensions

Over the years the Administration and Congress have worked together on a bipartisan basis to greatly improve retirement savings portability for workers. The President's budget clearly reflects the Administration's desire to work with Congress to accomplish even more in this area. We must remember that there are at least two important elements in improving portability: accelerating vesting and making it easier to consolidate retirement savings. We commend Representatives Portman and Cardin and the other co-sponsors of H.R. 1102 for their leadership in promoting improvements in portability.

Accelerated Vesting for Matching Contributions

Currently, employer contributions to a plan, including matching contributions to a 401(k) plan, only need to vest after 5 years (or 7 years if vesting is phased in). If an employee switches jobs after 4 years, all employer matching contributions could be forfeited. Under the President's budget, all employees must be fully vested in the employer's matching contributions after three years of service (or six years if vesting is phased in).

Consolidation of Retirement Savings

Under current law, there are many barriers to consolidating retirement savings. The President's budget takes significant steps toward eliminating these barriers, while balancing the need to prevent increased leakage from the retirement system. The leakage concern is highlighted by data suggesting that two thirds of workers receiving a lump sum distribution from a pension plan do not roll over the distribution to another retirement savings vehicle. Under the President's budget proposals

• A participant with an eligible rollover distributions from a qualified retirement plan would be able to roll the distribution into a section 403(b) tax-sheltered annuity, or vice versa. Under the proposal, such a rollover could occur directly or through an IRA.

• Amounts held in a deductible IRA could also be rolled over into an individual's workplace retirement plan. In addition to providing more opportunities to consolidate retirement savings, this proposal would help to simplify the existing "conduit IRA" rules.

• A participant in a state or local government section 457 plan would be able to roll a distribution from that plan into an IRA. This proposal will greatly increase payment flexibility for participants in these plans.

• A participant with after-tax contributions in a qualified plan would be able to roll those contributions into a new employer's defined contribution plan or into an IRA. Allowing these distributions to be rolled over would increase the chances that these amounts will be retained until needed for retirement.

• A new hire in the Federal government would be able to roll over a distribution from a prior employer's plan into the **Federal [clarity]** Thrift Savings Plan. We think it is important for the Federal government to set an example for all retirement plan sponsors in this regard.

• An employee of a state or local governments would be able to use funds in other retirement plans to purchase service credits in the state or local government's defined benefit plan without a taxable distribution. This provision would be particularly helpful in allowing teachers, who often move between different states and school districts in the course of their careers, to more easily earn a pension reflecting a full career of employment in the state in which they end their career.

We believe these proposals represent a significant step forward in the process of developing bipartisan consensus in the pension area. As noted, these proposals are substantially similar to those included in H.R. 1102 and have benefitted from discussion of these issues in this Subcommittee last year. We look forward to working with members and their staffs to resolve the relatively limited differences in these proposals.

Improving coverage and participation, particularly for low-income and part-time workers and women

While private pension coverage continues to grow, half of all American workers -- more than 50 million people -- have no pension plan at all. The bulk of the uncovered workers fall into one of three overlapping categories: lower paid workers, employees of small business, and women. The President proposes to address this low rate of coverage with a number of targeted measures.

Coverage of lower wage workers and Universal Savings Accounts

Lower-wage workers are far less likely to be covered by a pension plan than higher income individuals. Over X% of

individuals with incomes over \$X a year are covered by an employer retirement plan. Over X% of individuals with incomes over \$X a year who are eligible to contribute to a 401(k) plan do so. In marked contrast, less than X% of individuals with incomes under \$X a year are covered by an employer retirement plan. In addition, the qualified plan rules do not require coverage of many part-time workers.

The President proposes to address these problems by devoting 12 percent of the unified surplus to establishing a new system of Universal Savings Accounts.. These accounts would provide a tax credit to millions of lower- and middle-income American workers, including many part-time workers, to help them save for their retirement. A majority of workers could receive an automatic contribution. In addition, those who make voluntary contributions could receive a matching contribution to their USA account. The matching contribution would be more progressive than current tax subsidies for retirement savings -- helping most the workers who most need to increase retirement savings. By creating a retirement savings program for working Americans with individual and government contributions, all Americans will become savers and enjoy a more financially secure retirement.

USA accounts are intended in particular to help provide retirement savings to the [73] million working Americans who are not covered by our employer-sponsored pension system. In so doing, it is our expectation that USA accounts will be structured in such a way as to complement and augment employer-sponsored plans instead of substituting for them.

Small business tax credit for expenses of starting a new retirement plan

Although businesses with fewer than 100 workers provide 40 million jobs, only 20% -- about 8 million of these employees -- have pension coverage from their employer. In comparison, 62% of workers in firms with 100 or more employees have pension coverage.

The President's budget provides a three-year tax credit to encourage small businesses to set up retirement programs. The credit would be available to employers that did not employ, in the preceding year, more than 100 employees with compensation in excess of \$5,000, but only if the employer did not have a plan or payroll deduction IRA arrangement during any part of 1997. In order for an employer to get the credit, the plan would have to cover at least two individuals.

For the first year of the plan, small businesses would be entitled to a credit, in lieu of a deduction, equal to 50 percent of up to \$2,000 in administrative and retirement education expenses associated with a defined benefit plan (including the new SMART plan described below), 401(k), SIMPLE or other pension plan or payroll deduction IRA arrangement. For each of the second and third years, the credit would be 50 percent of up to \$1,000 in such costs. The credit covers the expense of retirement education as well as administrative expenses because employees respond to educational efforts with increased savings.

Promoting IRA Contributions through payroll deduction

To make it easier for workers to make contributions to Individual Retirement Accounts (IRAs), employers would be encouraged to offer payroll deduction. Contributions of up to \$2,000 to an IRA through payroll deduction generally would be excluded from an employee's income, and, accordingly, would not be reported as income on the employee's Form W-2. Some employees would be able to use simpler tax forms. As evidenced by the rising participation rates in 401(k) plans, the greater convenience of saving through payroll deduction encourages low and moderate-wage earners to save more for retirement. Small businesses establishing such arrangements would be eligible for the new pension program start-up tax credit, provided the

arrangement is made available to all employees of the employer who have worked with the employer for at least three months.

The SMART -- a simplified defined benefit-type plan for small business

In 1996, the Administration and Congress created the SIMPLE plan -- an easy-to-administer defined contribution plan for small businesses. However, there is no comparable tax-favored defined benefit pension plan that avoids the need for complex actuarial calculations, with the attendant administrative costs and unpredictability of funding requirements.

The President's budget proposes a simplified defined benefit-type plan for small business, the SMART plan (Secure Money Annuity or Retirement Trust). SMART combines many of the best features of defined benefit and defined contribution plans and provides another easy-to-administer pension option for small businesses. Because the SMART does not involve many employer choices regarding plan design or funding, many of the rules that govern these choices in defined benefit plans will not apply to the SMART. For example, the SMART Plans would not be subject to the nondiscrimination or top-heavy rules applicable to qualified retirement plans. SMART Plans also would not be subject to the limitations on benefits under section 415. Similarly, because SMART Plans do not have complex actuarial calculations, they would be subject to simplified reporting requirements. The minimum guaranteed benefit under the SMART Trust, described below, would be guaranteed by the PBGC -- with a reduced **premium[s]**.

A business would be eligible to adopt a SMART if it employed 100 or fewer employees with W-2 earnings over \$5,000 and does not offer (and have not offered during the last 5 years) a defined benefit or money purchase plan. An employer that maintained a SMART Plan could not maintain additional tax-qualified plans, other than a SIMPLE plan, or a 401(k) plan or 403(b) tax-sheltered annuity plan under which the only contributions that are permitted are elective contributions and matching contributions that are not greater than those provided for under the design-based safe harbor for 401(k) plans

SMART Plans would provide a fully funded minimum defined benefit, with a possible higher benefit if cumulative investment returns exceed 5 percent. Each year the employee participates, all eligible employees (employees with at least \$5,000 in W-2 earnings with the employer in that year and in two preceding consecutive years) would earn a minimum annual benefit at retirement equal to 1 percent or 2 percent of compensation for that year. Moreover, an employer could elect, for each of the first 5 years the SMART Plan is in existence, to provide all employees with a benefit equal to 3 percent of compensation (in lieu of 1 percent or 2 percent of compensation). The maximum compensation that could be taken into account in determining an employee's benefit for a year would be \$100,000 (indexed for inflation). Benefits would be fully vested.

Under the SMART, an employer would be required to contribute each year an amount sufficient to provide the annual benefit accrued for that year payable at age 65, using actuarial assumptions specified in the statute (including a 5 percent annual interest rate). The contributions would be allocated to a separate account for each employee to which actual investment returns would be credited. If a participant's account balance were less than the total of past employer contributions credited with 5 percent interest per year, the employer would be required to contribute an additional amount for the year to make up for any shortfall. Moreover, the employer would be required to contribute an additional amount for the year to make up for any shortfall between the balance in the employee's account and the purchase price of an annuity paying the minimum guaranteed benefit when an employee retires and takes a life annuity. On the other hand, if the investment returns exceeded the 5 percent assumption, the employee would be entitled to the larger account balance. If the employee elected to receive an annuity, the larger account balance would translate to a larger annuity.

If an employer did not wish to take on the risk that the cumulative investment return will be less than 5% or that the

employee will choose an annuity when the insurance market is unfavorable, the employer could choose to purchase a SMART annuity instead. In the case of a SMART Annuity, each year an employer would be required to contribute the amount necessary to purchase an annuity that provides the benefit accrual for that year on a guaranteed basis.

SMART Plans would be subject to the qualified joint and survivor annuity rules that apply to qualified defined benefit pension plans. Lump sum payments also could be made available. No distributions would be allowed from a SMART Plan prior to an employee's attainment of age 65, except in the event of death or disability, or where the account balance of a terminated employee was not more than \$5,000. However, an employer could allow a terminated employee who has not yet attained age 65 to directly transfer the individual's account balance from a SMART Trust to either a SMART Annuity or a special individual retirement account ("SMART Account") that is subject to the same distribution restrictions as the SMART Trust.

If a terminated employee's account balance did not exceed \$5,000, the SMART Plan would be allowed to make a cashout of the account balance. The employee would be allowed to transfer any such distribution tax-free to a SMART Annuity, a SMART Account, or a regular IRA.

Distributions from SMART Plans would be subject to tax under current rules applicable to the taxation of annuities under Code section 72. A 20 percent additional tax would be imposed for violating the pre-age 65 distribution restrictions under a SMART Annuity or SMART Account.

Enhanced retirement security for women

Women have less pension coverage than men. Only 30 percent of all women aged 65 or older were receiving a pension in 1994 (either worker or survivor benefits) compared to 48 percent of men. Women's pensions are typically worth less than those received by men. Among new private sector pension annuity recipients in 1993-94, the median annual benefit for women was \$4,800, or only half of the median benefit of \$9,600 received by men.

The President's proposals include a number of provisions that -- while gender neutral -- would have the primary effect of benefitting women. For example, workers who take time off under the Family and Medical Leave Act (FMLA) would be able to count that time toward retirement plan vesting requirements. In some cases, counting time taken under FMLA can make the difference between receiving or not receiving credit toward minimum pension vesting requirements.

The budget would make a 75% (or higher) joint and survivor annuity universally available in plans subject to the joint and survivor rules. Having higher survivor annuities could reduce the number of elderly widows living in poverty. Under current law, workers are given the option of a single life annuity, which pays only during the life of the covered employee, or a "joint and survivor annuity" which typically pays a lower pension benefit during the lifetime of the retiree, but continues to pay 50% of the amount to a retiree's surviving spouse. Unfortunately, the income a surviving spouse needs to live on is often more than 50% of the pension payable while the worker is alive. Many couples may prefer an option that pays a somewhat smaller benefit to the couple while both are alive, but provides a larger benefit -- 75% of the annuity amount -- to the surviving spouse. In addition, the budget would reinforce a worker's spouse current law rights to participate in the worker's election regarding the form of payment of a retirement plan by requiring that the spouse receive the same explanation of the worker's choices that the worker receives.

Plan vesting requirements have a disproportionate adverse impact on female employees who tend to have shorter job

tenure. Under the President's budget, all employees must be fully vested in the employer's matching contributions after three years of service (or six years if vesting is phased in).

[Perhaps refer to importance of retirement savings education - say DoL testimony will discuss]

Improving Benefits for Workers

We share with the Committee the goal of increasing workers' retirement income security. The nondiscrimination rules and top-heavy rules play an important role in directing adequate benefits to lower- and middle-income workers under tax-qualified retirement plan. In addition, we believe that it is important to encourage employers to adopt plans that provide retirement benefits to all covered employees, rather than relying too heavily on salary reduction arrangements that provide no benefits for those workers who are unable to save. The President's budget also proposes to improve benefits by accelerating vesting.

Nondiscrimination Rules

The nondiscrimination rules benefit lower paid employees because they require the employer to provide benefits to these employees as a condition of receiving tax-favored status for their retirement plans. Higher paid employees are typically very interested in saving for their retirement, and many of them would save even in the absence of an employer plan. On the other hand, many lower-paid employees have little or no interest in retirement plan savings, understandably preferring to receive a larger portion of their total compensation package in the form of current pay. However, it is just these types of lower-paid employees -- who are unable to save on their own -- who need the most help in saving for retirement.

If the nondiscrimination tests are weakened, some employers would respond by increasing the benefits provided to their higher paid employees while maintaining the benefits provided to their lower-paid employees. Alternatively, the employer could maintain the current contribution level for the higher paid employees and respond to lower-paid employees' desire to shift their compensation package to cash compensation by reducing their retirement benefits.

Top-Heavy Rules

The top-heavy rules are also important in delivering benefits to middle- and lower-income workers when the nondiscrimination rules do not do an adequate job. A plan is considered top-heavy whenever 60% of the value of the benefits provided under the plan inure to key employees (i.e., certain owners and officers). If a plan is top-heavy, the plan must provide certain minimum benefits or contributions and must accelerate vesting.

Some pension practitioners have traditionally used their ingenuity to find gaps in the rules in order to allow plan sponsors to minimize the benefits provided to moderate- and lower-paid employees. Some of the more aggressive approaches have resulted in very large disparities in benefits between key and non-key employees. For example, without top-heavy safeguards, some plans could provide as much as \$30,000 to key employees and as little as 1% of pay to younger nonkey employees. The top-heavy rules fill a portion of those gaps by requiring a minimum contribution for all nonkey employees equal to 3 percent of pay (or less, if all key employees receive lower allocations).

As noted, the top-heavy rules apply only when more than 60% of the benefits in a plan are concentrated among a limited

group of key employees -- often as a result of nonkey employees terminating without vesting or because an employer's demographics accommodate a plan design that takes advantage of the permitted disparity in the nondiscrimination rules in order to provide more benefits to higher paid employees. By requiring at least a minimum level of benefits for all employees and accelerating vesting, the top-heavy rules play a very important role in leveling the playing field in these cases.

We do, however [eases the transition] believe that some elements of proposals to simplify the top-heavy rules warrant serious consideration, and we look forward to working with this Committee in an effort to pursue responsible simplifications of these rules. However, we have serious concerns about certain elements of current top-heavy simplification proposals, particularly provisions that would undermine the ownership attribution rules that apply, not only for the top-heavy rules, but for the other pension nondiscrimination rules as well.

A fundamental principle underlying the Internal Revenue Code is that tax rules should not be avoided by simply shifting ownership of a business among family members. The proposed changes in the ownership attribution rules would virtually eliminate the obligation to provide fair benefits to non-family member employees in small business retirement plans. For example, under the proposed change, a business run by two spouses who also employed a full-time non-family member would be able to exclude that employee from a retirement plan covering the two spouses as long as the business was legally owned solely by either spouse. Obviously, such a proposal could substantially reduce coverage among workers in small businesses and is inconsistent with our efforts to expand coverage of those workers.

The nondiscrimination and top-heavy rules benefit the American taxpayer by ensuring that the tax preference for pensions is utilized by workers throughout the income spectrum and does not serve primarily as a tax shelter for higher-income individuals. If the nondiscrimination or top-heavy rules were eliminated or weakened, more average workers would have smaller benefits and more shorter service workers would risk forfeiting [softens] their benefits.

401(k) Safe Harbor

The President's budget proposes to improve the benefits of workers by modifying the rules applicable to the safe harbor 401(k) plan. Under this plan design, an employer is not required to determine the rate at which nonhighly compensated employees are participating in the plan, if the employer provides a specified matching contribution formula. In order to increase the participation rate of nonhighly compensated employees, the budget would specify a minimum period following the receipt of an explanation of the plan during which employees could choose to participate in the plan for the upcoming year and would require that all employees covered under a safe harbor 401(k) plan receive a small nonelective contribution equal to 1% of pay. Receiving account statements showing this contribution and the tax-free compounding of interest would stimulate the saving habit among nonsavers and would give the vendor an opportunity to communicate with the employee.

Effect of Increased Contribution and Benefit Limits on Middle- and Lower-Income Workers

We share the concern that percentage of pay limitations under defined contribution plans may inappropriately limit retirement savings opportunities for some lower- and moderate-paid workers. We would be interested in working with the Committee on approaches to address these issues. For example, while a wholesale repeal of these limits may not be necessary, a more targeted approach may be to explore whether there is some minimum dollar level of contribution that could address these concerns, similar to the minimum dollar benefit accrual allowed for defined benefit plans. In addition, it is important to ensure that

any changes to percentage of pay limitations avoid weakening nondiscrimination tests that are based on employee percentage of pay averages.

Some also suggest increasing the contribution and benefit dollar limits for tax-qualified plans, on the theory that the nondiscrimination rules would provide moderate- and lower-paid workers with their fair share. We [are skeptical] **have several concerns** about such an approach, especially if not part of a significantly broader legislative strategy that ensures meaningful benefits for moderate- and lower-income workers. It would need to be demonstrated that these proposals would function as an effective incentive for new coverage and new saving, given that a very small percentage of retirement plan participants is affected by the current statutory limits, and the individuals affected tend to be among the wealthiest of Americans. To date, there is no reliable evidence to indicate that these additional tax preferences will result in any appreciable increase in new plan coverage.

Moreover, recent changes in law, such as the repeal of the 15% excise tax on very large retirement distributions from qualified plans and IRAs, have already increased the amount that higher-income individuals can save on a tax-favored basis. Some of the 1996 and 1997 provisions have only recently become effective, and the repeal of the combined maximum limits on tax-qualified benefits and contributions -- a major simplification that could increase significantly the ability of higher-income individuals to accumulate tax-qualified benefits -- will not become effective until next year. Accordingly, it is still too early to assess the impact of these changes.

In addition, if the nondiscrimination rules (including the related limit on considered compensation under section 401(a)(17)) are weakened at the same time the contribution and benefit limits are increased, the limit increases may not result in any increase in the quality of coverage for middle- and lower-income workers who are currently covered under retirement plans. In fact, an increase in the section 401(a)(17) considered compensation limit from \$160,000 to \$235,000 could increase the relative share of plan benefits that go to higher paid employees. For example, simultaneous increase in the compensation and contribution limits will not require an improvement in a plan benefit formula in order for individuals whose compensation exceeds \$160,000 to take advantage of a section 415(c) contribution limit increase from \$30,000 to \$45,000. Where the highly paid are satisfied with current benefit levels, a change in the section 401(a)(17) compensation limit may even provide an opportunity to reduce benefit levels for other employees without affecting benefits for the highly paid. Once again, of course the overall impact of any legislative changes of this particular type would need to be assessed in the context of other provisions that might be enacted at the same time, especially broad initiatives to deliver significant additional retirement savings to lower- and moderate-income workers.

I want to repeat, however, that we will gladly work with the Committee on appropriate ways to expand retirement savings opportunities for low- and moderate-paid workers hurt by current strictures. [More positive.]

Increases in IRA and Salary Reduction Contribution Limits

Proposals that are focused on increasing contribution limits for IRAs and for SIMPLE, 401(k), and other salary reduction plans raise particular concerns. We share the goal of increasing retirement savings. However, in addition to being an inefficient use of tax expenditures for savings, changes of this type threaten to reduce the quality of retirement plan coverage for millions of workers.

For example, increases in IRA limits could undermine interest in qualified retirement plans, particularly among owners of small businesses. Such an approach is inconsistent with other proposals attempting to increase coverage among employees of small

businesses.

Furthermore, increases in the limits on 401(k) contributions, while benefitting only a very small minority of taxpayers who have the ability to set aside these amounts in a 401(k) plan, are likely to encourage employers to shift even more of the cost of retirement savings to employees through salary reduction contributions, often without any employer-funded benefits. We are very [skeptical] **concerned** that this type of shifting would be precluded by simultaneously increasing the limits for employer-funded defined benefit and defined contribution plans, particularly because the higher IRA and salary reduction contribution limits may be sufficient to satisfy the desire for tax-favored retirement savings on the part of many decision-makers, including small business owners.

Under current law, if an owner of a successful small business wishes to save more than the amount he or she can save in a 401(k) plan, the employer will be forced to adopt a plan that provides for nonelective contributions. This limit on 401(k) plans and the resulting pressure to provide nonelective contributions serves a useful purpose in our system. While 401(k) plans are highly desirable, particularly as “starter plans” for businesses and as supplemental plans, the bedrock of the private pension system should continue to be defined benefit and defined contribution plans that provide for employer-funded benefits. Without employer-funded benefits and contributions, there will be far less in retirement savings for those who are the least able to save.

Similar concerns are raised by proposals for a \$5,000 SIMPLE plan that provides for no employer contributions. Surveys suggest that the popularity of SIMPLE plans with small businesses is already exceeding expectations in the two years since SIMPLEs became available. The SIMPLE plan requires only a modest, but important, employer matching or automatic contribution. A proposal that allows \$5,000 of employee pretax contributions without either nondiscrimination testing or employer contributions will certainly undermine the SIMPLE plan. Furthermore, in combination with a \$5,000 IRA contribution limit proposal, there could be substantial displacement of not only SIMPLE plans but also 401(k) plans (which have nondiscrimination standards or safe harbor employer contributions). We believe that the Administration’s payroll deduction IRA proposal, which is based on current law IRA limits, is a far better approach to addressing small businesses’ concerns about financial commitment, without undermining the success of SIMPLE plans.

Catch-up Contributions

We are sympathetic to concerns that those who have spent extended periods out of the workforce may encounter obstacles to “catching up” on retirement savings needs. Obviously, the most important obstacle in this regard is an individual’s own financial ability to increase savings. With respect to the employer plan system, evidence suggests that nonstatutory plan limits (e.g., limiting salary reduction contributions to 10% of pay) are a significantly greater barrier to catch-up contributions than the statutory \$10,000 401(k) contribution limit. In fact, only a small percentage of participants over the age of 50 are actually affected by the \$10,000 contribution limit, and those tend to be among the highest-income individuals.

Accordingly, we [are skeptical that] **wonder whether** increasing the dollar limit for 401(k) contributions would have much effect for the vast majority of aging baby boomers. In addition, we have very serious concerns regarding proposals to undermine fairness in 401(k) plans by exempting catch-up contributions from nondiscrimination testing. Such proposals essentially admit that increases in the 401(k) dollar limit, even for those over the age of 50, will disproportionately benefit higher-paid workers.

We think it is worth exploring ways to address barriers to increasing retirement savings, particularly for those over the age

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of 50. In so doing, it may be more appropriate to focus on percentage of pay limitations, particularly as applied to lower-income workers, as discussed earlier.

Simplifying Regulatory Requirements

Another area of bipartisan accomplishment has been pension simplification. As discussed earlier, the 1996 Small Business Job Protection Act and the 1997 Taxpayer Relief Act took a number of important steps. Further improvements can be made to promote simplification.

In considering any simplification proposal, however, there must be an appropriate balance between simplifying the rules and protecting workers, so that middle- and lower-income workers receive a fair share of retirement benefits.

For example, the President's budget includes a proposal to simplify the highly compensated employee definition. Under this proposal, the definition of highly compensated employees would be modified to eliminate the complex option to treat all employees earning below the 80th percentile in an employer's workforce as nonhighly compensated employees. This will ensure that all employees earning over \$80,000 are classified as highly compensated employees for qualified plan nondiscrimination testing purposes. This would not only make the law simpler, it would also make it more fair. Under current law, an employee earning hundreds of thousands of dollars can be classified as a nonhighly compensated employee for nondiscrimination testing if the individual is below the 80th percentile (which is possible in a small firm) and not a 5% owner.

Complexity and Flexibility

Although many complain about the complexity of pension rules, it is important to remember that complexity is often attributable to employers' desire for certainty in the rules while at the same time accommodating a wide range of plan designs and practices to satisfy various corporate goals and objectives. Accordingly, major simplification in the nondiscrimination rules would come at the price of curtailing the extensive flexibility employers currently enjoy.

The pension nondiscrimination regulations reflect the effort to combine certainty with flexibility. These regulations, which were finalized in 1993, were the product of an unprecedented amount of dialogue between the government and plan sponsors, following multiple rounds of comment, discussion, and revision. Plans have long since been amended to reflect the regulations.

These regulations address the complexity issue by providing a set of safe harbors that allow employers to avoid nondiscrimination testing by retaining or adopting straightforward plan designs that provide uniform benefits to participants. These plans pass the nondiscrimination tests regardless of the characteristics of the employer's workforce. Today, well over 90% of qualified plans use these safe harbor designs.

Compliance Programs

Another example of easing regulatory burdens without weakening worker protections may be found in the compliance programs maintained by the Internal Revenue Service. Since 1990, the Service has maintained a number of compliance programs to enable retirement plans that have failed to meet tax-qualification requirements to be corrected. These programs have evolved over the years in response to taxpayer suggestions, and there has been widespread appreciation for how successful the programs have

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been.

Some legislative proposals would effectively undermine these programs and would adversely affect compliance. The programs are based on the fundamental principle that plan sponsors need a carefully graduated series of stages in the process to make sure that the sponsor always has the incentive to avoid delaying correction to a later date -- especially an incentive to correct shortly after the error has occurred when correction is easy and before participants have been hurt -- but also to make sure that if the error has not been corrected within a specified time, the sponsor still has a further incentive to correct at the next stage in the process. This challenging but productive administrative process requires maximum flexibility, feedback, and adaptation, which can be achieved only through the kind of administrative approach involving the pension community that has led to the compliance programs.

Pending legislative proposals would restrict the flexibility that is currently essential to the administrative compliance programs. For example, some proposals would fail to require full correction of qualification errors, even in the case of significant violations. Thus, if a plan discovered it had failed to pay 401(k) benefits to 20 retired participants, for example, the current programs would encourage prompt correction after discovery of the failure. By contrast, under legislative proposals, the sponsor would not be required to take any corrective action unless and until the audit notice cycle began, and then would be required to correct only for most of the participants. These proposals would not allow the Service to require that benefits ever be paid to the remaining participants, even if the plan could easily pay the benefits and even after audit. These legislative proposals also would dramatically revise the tax consequences for disqualification, removing the primary compliance incentive for plans that cover predominantly nonhighly compensated employees, such as multiemployer plans or plans of businesses in financial distress for which loss of an income tax deduction or a tax on trust earnings is not important. Such changes would undermine the IRS administrative compliance and correction programs, which have been widely recognized as improving plan compliance.

In order to protect participants while lessening regulatory burdens, we need to continue developing and improving flexible and evolving programs, such as the Employee Plans Compliance Resolution System, that create appropriate incentives, as opposed to statutory requirements that might impede innovation and flexibility.

Conclusion

The Treasury Department appreciates the opportunity to discuss these important issues with Members of this Subcommittee, and we would be pleased to explore these issues further.

Mr. Chairman, this concludes my formal statement. I will be pleased to answer any questions you or other Members may wish to ask.

[Automated Records Management System Hex-Dump Conversion]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Janet R. Forsgren (CN=Janet R. Forsgren/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 8-APR-1999 13:27:53.00

SUBJECT: Re: Your Comments on TSP Reform

TO: Sarah Rosen (CN=Sarah Rosen/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Melissa N. Benton (CN=Melissa N. Benton/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Stephen G. Elmore (CN=Stephen G. Elmore/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:

A couple of thoughts/questions regarding the packaging of the TSP, DOL, and PBGC pension initiatives for formal transmittal to the Hill. I suggest that you discuss these at the next interagency pension group meeting, which I recall usually are scheduled on Thursdays (hopefully, there is one today). In addition to reaching agreement on the two points below, it will give all the agencies a chance to express their views on proceeding without the Treasury provisions. (It will be interesting to see Treasury's reaction.)

(1) Do you want the proposals from all three agencies consolidated into one bill and transmitted by one agency (on behalf of all the agencies)? If so, which agency should be the lead. Alternatively, the transmittal letter could be signed by all three agencies, which is logistically more complicated and therefore time consuming. Another alternative is for each agency to send its own legislative proposals and mention in its transmittal letter that it is part of a broader pension reform proposal. I recommend this latter approach for the following reasons: (1) to simplify committee jurisdiction issues -- i.e., each piece will go only to the committee having jurisdiction (no use in the DOL and PBGC pieces going the Government Reform); and (2) to provide some cover for Treasury -- i.e., it perhaps won't be quite so glaring that its pieces are missing, if each agency sends up its own.

(2) What about the pieces of the DOL/PBGC proposals that relate to proposals not yet drafted by Treasury? Should they be transmitted now or held for transmittal with the Treasury proposals?

Let me know how you would like to proceed. Thanks.

----- Forwarded by Janet R. Forsgren/OMB/EOP on 04/08/99
01:01 PM -----

From: Stephen G. Elmore on 04/08/99 12:06:22 PM

Record Type: Record

To: Janet R. Forsgren/OMB/EOP@EOP

cc:

Subject: Re: Your Comments on TSP Reform

----- Forwarded by Stephen G. Elmore/OMB/EOP on 04/08/99
12:07 PM -----

Sarah Rosen

04/08/99 11:56:18 AM

Record Type: Record

To: Stephen G. Elmore/OMB/EOP@EOP

cc:

Subject: Re: Your Comments on TSP Reform

One thing re the OPM draft bill proposal.

I would like to send it up with the DoL, PBGC, and Treasury parts of the package. Treasury has been laggard. At some point, we go without them. can we check where those pieces are with your collegies at leg ref. Tks,

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-MAY-1999 19:35:42.00

SUBJECT: Congress Daily

TO: mark.iwry@do.treas.gov (mark.iwry@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

CC: William G. Dauster (CN=William G. Dauster/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

Thanks for the help getting the Cash Balance issue to the Deputies today.
I will schedule a working group meeting for early next week to get
outstanding issues resolved. Let's get the consulting finished asap.

As expected, Congress Daily this afternoon reports that, with SS reform
stalled, Congress will turn to pension reform. This really puts a premium
on our reaching agreement on a strategy to deal with some of the issues
raised by portman cardin and PBGC.

As we've discussed, we only need responses from Treasury to the
"philosophical" and political strategy points in the PBGC and DoL papers
to get to a deputies discussion of these issues. Once we have guidance on
those issues, the working group can delve through the details on the
various specific policy issues.

What is your deadline for getting a paper to us? If it isn't here by
very early next week, Bill or Gene are likely to talk to Don or John.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Mark.Iwry@do.treas.gov (Mark.Iwry@do.treas.gov [UNKNOWN])

CREATION DATE/TIME:20-MAY-1999 14:12:22.00

SUBJECT: Congress Daily -Reply

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TO: mark.iwry@do.treas.gov (mark.iwry@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: William G. Dauster (CN=William G. Dauster/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TEXT:

Date: 05/20/1999 01:21 pm (Thursday)

From: Mark Iwry

To: ex.mail."Sarah_Rosen_Wartell@opd.eop.gov", ex.mail."mark.iwry"

CC: ex.mail."William_G._Dauster@opd.eop.gov"

Subject: Congress Daily -Reply

Glad the cash balance meeting with the Deputies went well. You did a nice job summarizing the issue in 2 minutes, and our building seems to be quite supportive so long as they're satisfied that what we finally come up with is a proposal that has gotten adequate policy and political analysis.

As you saw, Treasury was one of the only agencies whose deputy representative actually had seen the paper, had focused on it, and had been briefed, before the meeting. We pressed hard to make that happen in time, but this cash balance activity probably has cost us another day or two on the Portman-Cardin/PBGC/DOL paper, which we had hoped to get cleared and over to you and the others by cob Friday. At this point, early next week is what we're expecting. Thanks.

>>> ex.mail."Sarah_Rosen_Wartell@opd.eop.gov" 05/19/99 07:35pm >>>

Thanks for the help getting the Cash Balance issue to the Deputies today. I will schedule a working group meeting for early next week to get outstanding issues resolved. Let's get the consulting finished asap.

As expected, Congress Daily this afternoon reports that, with SS reform stalled, Congress will turn to pension reform. This really puts a premium on our reaching agreement on a strategy to deal with some of the issues raised by portman cardin and PBGC.

As we've discussed, we only need responses from Treasury to the "philosophical" and political strategy points in the PBGC and DoL papers to get to a deputies discussion of these issues. Once we have guidance

on
those issues, the working group can delve through the details on the various specific policy issues.

What is your deadline for getting a paper to us? If it isn't here by very early next week, Bill or Gene are likely to talk to Don or John.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:12-JUN-1999 18:41:03.00

SUBJECT: Pensions -- Process Issue with Treasury

TO: Sally Katzen (CN=Sally Katzen/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: William G. Dauster (CN=William G. Dauster/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Shannon Mason (CN=Shannon Mason/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

Summary: Gene may be called by Cheryl Sandberg to explain why Treasury has decided not to provide to the Pensions working group a staff level paper concerning whether the Administration should support so-called "incentives" to encourage management to provide workers with better Defined Benefit Plan benefits (by raising limits on which employees can receive benefits and on the amount of benefits that higher paid workers can receive). (If Gene is not called, someone needs to call Treasury to find out what is going on.)

The paper was expected to be provided to Sarah and the working group three weeks ago (after waiting months for Treasury completion). However, after staff were finished, it went through internal Treasury clearance. Treasury staff (Iwry) and Sarah were informed that the paper would not be sent to the WH for the working group. No other explanation has been forthcoming. We do not think there is any disagreement with the policy represented in the paper -- which opposes providing such incentives. If there is a disagreement with the process that the NEC is running, it is not shared by the Treasury staff and has not been explained to them or Sarah. Bill Dauster has a call into Lubbock to see if he can learn any more about the concern.

Background: Shortly after Sarah took over the working group in November, she was approached by David Strauss, head of PBGC. Strauss had spent the last year talking to employers and plan sponsors, in part to be customer friendly, and in part to understand better why the continuing shift from DB to DC plans. Strauss' premise is that only a DB plan provides workers a fixed annuity benefit, funded by the employer, not the worker. Thus, he finds the shift to DC plans deeply troubling at a time when our goal is increasing retirement resources. PBGC concluded that, to reverse the decline, senior management needed to have an interest in the quality of the DB plan. Now, because of compensation and other limits, that are unadjusted for inflation and so, Strauss argues, are much tighter than

once were, few senior management gain benefits under these plan. Instead, they get benefits under other tax-favored benefits that require little or no participation for lower wage workers. Strauss argues for various changes that would increase senior management benefits under DB plans.

Treasury, strongly opposes this view, arguing (I believe -- I don't have their paper) that the decline of DB plans is not as stark as asserted, the compensation limits are not the primary reason for any decline that exists, incentives would not be effective at increasing benefits to low wage workers, and instead, we would be providing regressive tax benefits to high income workers. The Administration has thus far taken the Treasury view on these proposals, although it is widely known on the Hill that Strauss disagrees.

The PBGC proposals are widely supported in the industry and are largely reflected in Portman-Cardin and Senator Roth's pension bill -- both bipartisan measures that face reasonable prospects of passage this year, over Administration objections.

DoL has taken a slightly different approach. They feel that the compensation limits will inevitably be raised and that the Administration should "get something for it" by agreeing, so long as other changes are provided that would expand coverage to more workers. Treasury feels that the conditions that DoL seeks would be untenable politically.

Strauss urged Sarah (and Sally and Dauster) to help develop a new administration position. Sarah said that no commitment could be made (and she was sceptical) but that NEC's role was to create a forum for resolution of such policy disputes. After we completed the pension proposals that were to be in the Administration's budget (and did the VP roll-out), we would run a process to assess these views. Recognizing that little could be resolved at the working group level, because the questions are really about philosophical approach and political tactics, she recommended that the agencies help her put together background papers and then convene meetings of relevant NEC deputies to debate (not the details) but the general direction.

After the VP's event, PBGC and DoL prepared policy papers to help frame the issues. Treasury was delayed (endlessly) in preparing theirs by workload in connection with USA accounts and other industry guidance requirements; however, about 3 weeks ago, staff completed their paper, which we have not seen, but we expect takes great issue with the PBGC and DoL proposals. Treasury staff were then told that no paper would be cleared.

Sarah suspects that senior Treasury officials believe that Treasury should have the lead on these issues and do not want to encourage a process that appears to give the views of DoL and PBGC equal weight. However, it could be something completely different. We don't know.

Sarah also is concerned that -- even if we deviate not one ounce from Treasury's preferred policy on these issues -- we face the real prospect of popular, bipartisan pension legislation passing the Congress over our objection. Rather than get any credit for pension reform, the President

could find himself in a battle on the losing and unpopular side of an issue. We may choose to do so, if it is the right policy choice, but she thinks the WH needs to be informed and make a conscious choice. Some sort of process is necessary to make that assessment.

Please advise.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Janet R. Forsgren (CN=Janet R. Forsgren/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:12-JUL-1999 17:39:06.00

SUBJECT: RE: LRM OGG41 - - Pension Benefit Guaranty Corporation Report on Pension Reform

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

CC: Sandra Yamin (CN=Sandra Yamin/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: James J. Jukes (CN=James J. Jukes/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Larry R. Matlack (CN=Larry R. Matlack/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Joseph J. Minarik (CN=Joseph J. Minarik/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Laurence R. Jacobson (CN=Laurence R. Jacobson/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Robert L. Nabors (CN=Robert L. Nabors/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Charles M. Brain (CN=Charles M. Brain/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TEXT:

In light of PBGC's e-mail below and Chuck Brain's concerns, should we assume that clearance of the PBGC letter to Congressman English should not occur until after the Ways and Means mark-up this week?

----- Forwarded by Janet R. Forsgren/OMB/EOP on 07/12/99

05:26 PM -----

Sirkin Stuart <Sirkin.Stuart@PBGC.GOV>

07/12/99 05:23:28 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Oscar Gonzalez/OMB/EOP

Subject: RE: LRM OGG41 - - Pension Benefit Guaranty Corporation Report on Pension Reform

it has not been reviewed by other agencies. We tried to stay with previous positions, and walk a fine line in light of not knowing where we were going to be on section 420. We talked briefly with Treasury (and have sent them a copy directly), but it came to us in the middle of the cash balance disclosure discussions. We are offering it up for comment -- and happy to make changes. We certainly are aware of the section 420 issues, and don't want to affect that. I don't think it is critical that we meet

Congressman

English's deadline. We have already told his office that this raised major policy issues and we didn't know if we could get comments back before the markup. So I'm not sure that we have to kill ourselves to respond if that

is

going to be to difficult.

-----Original Message-----

From: Sarah_Rosen_Wartell@opd.eop.gov

[mailto:Sarah_Rosen_Wartell@opd.eop.gov]

Sent: Monday, July 12, 1999 4:10 PM

To: Natasha_F._Bilimoria@opd.eop.gov; Sarah_Rosen_Wartell@opd.eop.gov;
Sonyia_Matthews@opd.eop.gov; David_W._Beier%OVP@oa.eop.gov;
Pieter_J._Boelhouwer%OVP@oa.eop.gov; Mark_D._Menchik@omb.eop.gov;
Cordelia_W._Reimers@cea.eop.gov; Laurence_R._Jacobson@omb.eop.gov;
Bruce_D._Long@omb.eop.gov; Janet_R._Forsgren@omb.eop.gov;
Oscar_Gonzalez@omb.eop.gov; Lisa_B._Fairhall@omb.eop.gov;
Douglas_D._McCormick@omb.eop.gov; hinzr@pwba.dol.gov;
kramerich-leslie@dol.gov; mcknight-avis@dol.gov; lebowita@pwba.dol.gov;
lees@pwba.dol.gov; lindrewg@pwba.dol.gov; maroney-kevin@dol.gov;
mcgahey-richard@dol.gov; watsons@pwba.dol.gov;
montgomery-edward@dol.gov; holzer-harry@dol.gov; turner-john@dol.gov;
akers-valerie@dol.gov; grant.joseph@pbgc.gov; healy.monica@pbgc.gov;
schub.judy@pbgc.gov; gustafson.david@pbgc.gov; pacelli.jane@pbgc.gov;
sirkin.stuart@pbgc.gov; krist.karen@pbgc.gov;
william.bortz@do.treas.gov; lisa.andrews@do.treas.gov;
mark.iwry@do.treas.gov; LEONARD.BURMAN@do.treas.gov;
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donald.wellington@do.treas.gov; amy.null@do.treas.gov;
donna.shackleford@do.treas.gov; mark.iwry@do.treas.gov;
jane.molloy@mail.doc.gov

Cc: Oscar_Gonzalez@omb.eop.gov

Subject: LRM OGG41 - - Pension Benefit Guaranty Corporation Report on Pension Reform

PBGC -- Has this been reviewed by other agencies? Is this a consensus view? Treasury and DoL -- Please expedite comments so that -- if issues need to be resolved -- we can do so expeditiously. Thanks.

Oscar -- I don't have comments myself but would like to see other agency comments and help if there are disputes to resolve. tks.

----- Forwarded by Sarah Rosen Wartell/OPD/EOP on 07/12/99

04:07 PM -----

Oscar Gonzalez
07/12/99 04:04:59 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: LRM OGG41 - - Pension Benefit Guaranty Corporation Report on
Pension Reform

----- Forwarded by Oscar Gonzalez/OMB/EOP on 07/12/99
04:07 PM -----
LRM ID: OGG41

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Monday, July 12, 1999

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Janet R. Forsgren (for) Assistant Director for Legislative
Reference

OMB CONTACT: Oscar Gonzalez

PHONE: (202)395-7754 FAX: (202)395-6148

SUBJECT: Pension Benefit Guaranty Corporation Report on Pension
Reform

DEADLINE: 10 am Tuesday, July 13, 1999

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Attached is a draft letter from PBGC Executive Director David Strauss to Rep. English regarding the movement of "excess" assets from ongoing plans to other qualified retirement vehicles. The letter is in anticipation of a House Ways and Means mark-up on July 14th .

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EOP:

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Sarah Rosen Wartell
David W. Beier
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Larry R. Matlack
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Justine F. Rodriguez
Charles M. Brain
Karen Tramontano
Brian S. Mason
Ronald E. Jones
Joseph J. Minarik
Janet R. Forsgren
James J. Jukes

LRM ID: OGG41 SUBJECT: Pension Benefit Guaranty Corporation Report on
Pension Reform

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Oscar Gonzalez Phone: 395-7754 Fax: 395-6148
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: _____ (Date)

_____ (Name)

_____ (Agency)

_____ (Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur
_____ No Objection
_____ No Comment
_____ See proposed edits on pages _____
_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this response sheet
(See attached file: excess.wpd)

Message Sent

To: _____

Natasha F. Bilimoria/OPD/EOP@EOP
Sarah Rosen Wartell/OPD/EOP@EOP
David W. Beier/OVP@OVP
Pieter J. Boelhouwer/OVP@OVP
Larry R. Matlack/OMB/EOP@EOP
Mark D. Menchik/OMB/EOP@EOP
Michael J. Brien/CEA/EOP@EOP
Laurence R. Jacobson/OMB/EOP@EOP
Justine F. Rodriguez/OMB/EOP@EOP
Charles M. Brain/WHO/EOP@EOP
Karen Tramontano/WHO/EOP@EOP
Brian S. Mason/OMB/EOP@EOP
Ronald E. Jones/OMB/EOP@EOP
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Janet R. Forsgren/OMB/EOP@EOP
James J. Jukes/OMB/EOP@EOP

Information in the headers for this message suggest that it may be spoofed and that its authenticity should be verified.

Any views expressed by the author of this message are not those of the Pension Benefit Guaranty Corporation.

Message Sent

To: _____

Sarah Rosen Wartell/OPD/EOP
Natasha F. Bilimoria/OPD/EOP
Sonyia Matthews/OPD/EOP
David W. Beier@OVP
Pieter J. Boelhouwer@OVP
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donna.shackleford@do.treas.gov
mark.iwry@do.treas.gov
jane.molloy@mail.doc.gov

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:27-JUL-1999 18:50:42.00

SUBJECT: Re: Revised PBGC letter to Rep. English on Pension Reform

TO: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TEXT:

I don't know this issue well enough to be comfortable with a veto threat. I will need to see what we said in prior veto threats? Can you get me copies? Where is this provision in the current bills? Is he threatening to veto over one small provision in a bigger bill? I will ask PBGC for more detail tomorrow.

Also -- the second sentence as edited doesn't work grammatically. " to the proposal,s threat to maintain sufficient assets in defined benefit plans to protect the participants and the Federal pension insurance program." ?????

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:27-JUL-1999 17:42:01.00

SUBJECT: Revised PBGC letter to Rep. English on Pension Reform

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

This dates back a couple of weeks, but I finally got Treasury comments on the PBGC letter on pension reform. I've faxed you a copy of the Treasury edits, and I've also attached an electronic strike-out version containing both the Treasury edits and OMB edits below. Let me know if you're OK with Treasury's comments, and with the letter as revised. Also let me know if you think anyone else should see the proposed edits before it goes back to PBGC.

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D23]ARMS270407801.236 to ASCII,
The following is a HEX DUMP:

July 9, 1999

The Honorable Phil English
U.S. House of Representatives
1410 Longworth Building
Washington, D.C. 20515-3821

Dear Representative English:

This is in response to your letter asking the views of the Pension Benefit Guaranty Corporation (PBGC) on your proposal to allow "excess" assets to be moved from a defined benefit pension plan to a stock bonus plan for the same employees without the plan being terminated and without any reversion tax. Although ~~We~~ we are sympathetic with your intent to encourage defined benefit plans, but remain concerned we strongly object, as we did were when similar proposals were suggested in 1995, to the proposal's threat to ~~about~~ maintaining sufficient assets in defined benefit plans to protect the participants and the Federal pension insurance program. We ~~are~~ also concerned about object to employers using assets in defined benefit plans for other corporate purposes. Such proposals raise fundamental concerns about the proper use of defined benefit plan assets and the increased risk of loss for participants and the PBGC. In addition, as the issue relates to tax-qualified plans and the provisions of the Internal Revenue Service, the Treasury Department needs to be involved.

According to the descriptive material accompanying your letter, your bill would allow an employer to transfer "excess" assets from a defined benefit plan to the employer's stock bonus plan without violating the rules of the Internal Revenue Code (Code) and the Employee Retirement Income Security Act (ERISA) prohibiting such transfers from an ongoing defined benefit plan. In addition, the stock bonus plan, which would have to cover 95% of the active participants in the defined benefit plan who are employees of the employer immediately after the transfer date, would have to invest the transferred assets in stock of the employer. ~~The defined benefit plan would have to annuitize the accrued benefits of all participants as of the transfer date as if the plan had terminated and remain in existence at least 5 plan years after the transfer.~~ There would be no reversion or income tax on the transfer.

The proposal defines excess assets as the excess of the fair market value of the plan's assets over the plan's liabilities. ~~It is not totally clear from the material you supplied how the employer is to calculate plan liabilities for this purpose. Since the defined benefit plan must annuitize all accrued benefits as if the plan terminated, that amount would clearly equal total termination liabilities under Title IV of ERISA. However, and the material also includes a definition of excess pension assets that defines liabilities as "the amount determined under Section 4010 of the Employee Retirement Security Act of 1974 for purposes of ascertaining the applicability of~~

Section 4010(b)(1) thereof."

Section 4010 uses this latter amount, which is tied to Title IV's variable rate premium calculations, as a simplified "gateway" test to determine if employers must file reports with the PBGC under section 4010. The section 4010 "gateway" amount is not a termination liability measure. ~~It can be either greater or lesser than the amount the insurance company charges to annuitize accrued benefits (i.e., termination liabilities).~~

~~Regardless of which of the definitions of liabilities is used to determine excess assets, the proposal would increase the risk of loss for both participants and the PBGC. Once the defined benefit plan has annuitized existing accrued benefits by purchasing annuities from an insurance company and "excess" assets are transferred to the stock bonus plan, the ongoing plan will have little or no cushion for future accruals (including future compensation or benefit increases).~~

We appreciate your recognition of the importance of defined benefit plans in providing retirement security for millions of Americans, ~~and your recognition of the importance increased flexibility can play.~~ At the same time, we must be careful to assure that we do not undercut the basic purpose of the reversion tax rules of section 4980 of the Code. Those rules were enacted to deter the termination of defined benefit pension plans for the purpose of recovering "excess" assets. ~~The Administration was greatly concerned in 1995 about~~ In 1995, the President threatened to veto proposals that allows employers to take assets from a defined benefit plan and use them for other purposes, ~~and remains equally concerned today.~~ Again today, PBGC would advise the President to veto such a proposal.

~~With our concerns noted, we would, of course, be happy to provide technical assistance to you and your staff.~~

This is to advise you that [OMB tag line].

Sincerely,

David Strauss
Executive Director

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:30-JUL-1999 09:37:03.00

SUBJECT: FW: Chairman's request

TO: Charles M. Brain (CN=Charles M. Brain/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TEXT:

continuation of earlier email == see other one first.

----- Forwarded by Sarah Rosen Wartell/OPD/EOP on
07/30/99 09:36 AM -----

Kramerich Leslie <kramerich-leslie@dol.gov>

07/30/99 09:27:59 AM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP

cc: Maroney Kevin <maroney-kevin@dol.gov>

Subject: FW: Chairman's request

The rest of the reasoning behind my desire to do this is (1) we were approached by the Pension Rights Center person who will in a week be the new

ERISA counsel at the Education & Workforce Committee about doing this, (2)

Rep. Andrews, Ranking Dem on that Committee is interested in protecting this

provision and tried to do so unsuccessfully in the markup, and (3) we are trying to work with Rep. Andrews to convince him to withdraw his support for

the "double jeopardy" provision we must oppose so strongly, and (4) we are hoping groups like PRC will oppose, too, the double jeopardy provision, but they of course ask that we help on other things they feel greater need to spend their efforts on. Finally, Senator Jeffords' staffer is not only the strongest proponent of the double jeopardy provision, she is also reportedly

opposed to this provision changing the SAR and is encouraging this letter from us. That's the rest of the landscape. Thanks.

From: Maroney Kevin

Sent: Friday, July 30, 1999 9:07 AM

To: Sarah_Rosen_Wartell@opd.eop.gov

Cc: Kramerich Leslie

Subject: SAR: Chairman's request

Sarah: Here is a draft of a letter that we would like to put into OMB clearance today addressing proposals to modify ERISA's Summary Annual Report requirement. Although we are acutely aware of WH legis affairs' rule ("i.e., Chuck Brain Rule") discouraging these kinds of letters, we would like to try and advance this letter for various reasons. (1) Chairman Jeffords has asked us to do so. (2) The pension rights advocacy groups are nervous about this provision and it would give them comfort for us to issue a letter. (3) Unlike many of the tax code changes, changes to the SAR tend to fall below the radar screen.

Finally, note that we do not refer to any specific legislation, especially any pending tax legislation, but have drafted a very general letter.

Do you see any problems with this approach? I can be reached at 693-4610 if you have any questions.

THANKS! :)

DRAFT DRAFT DRAFT DRAFT DRAFT DRAFT

The Honorable James Jeffords
Chairman, Committee on Health,
Education, Labor and Pensions
United States Senate
Washington, D.C. 20510

Dear Chairman Jeffords:

This is in response to your request for the Department of Labor's views on pending legislative proposals that would amend the summary annual report (SAR) provisions in section 104 of the Employee Retirement Security Act of 1974 (ERISA). Specifically, the proposals would eliminate the requirement that plan administrators annually distribute a summary report of the plan's financial condition to plan participants, and instead require that SARs only be made available for examination with copies furnished only upon request. We believe such a change would be inconsistent with a fundamental policy of ERISA to help protect workers' interests in their employee benefit plans through required disclosures of financial and other information about the plan.

When Congress enacted ERISA in 1974, it contemplated that pension

plan participants, as well as the Department of Labor, would have ready access to plan financial information. This dual approach, based on timely and accurate disclosure of plan information, has enhanced worker confidence in the private pension system. The SAR is the only routine report participants receive without cost that provides them with information about their plan's financial condition, including the amount of plan assets, the plan's investment experience, administrative expenses, and benefits paid. The SAR provides plan participants with a measure of assurance that their retirement plans are secure.

The SAR summarizes key financial information that was disclosed to the government on the plan's Form 5500 Series Annual Return/Report. Plan administrators prepare the SAR based on information in the Form 5500.

Since

this information has already been compiled, it is not burdensome for plan administrators to prepare a SAR. In addition, under guidance published by the Department, plan administrators are permitted to disseminate the SAR through electronic means, including e-mail and the Internet, which are efficient and cost-effective ways of disseminating information to plan participants.

As you know, workers are increasingly being asked to take more responsibility for their retirement security. Workers in 401(k) plans are often required to not only make contributions to the plan, but to make investment decisions affecting their retirements. By receiving a SAR, workers are annually reminded to monitor and evaluate their retirement plan.

Information in the SAR may prompt plan participants to request additional information from their plan administrator including the more detailed Form 5500.

We believe it is not sound retirement policy to reduce workers' access to plan financial information at the same time we are asking them to take more responsibility for their retirement planning. Timely and accurate disclosure of plan financial information is critical to assuring workers that their pensions are secure. The SAR is a cost-effective and appropriate method of providing important financial disclosures.

Thank you for the opportunity to express our views on this important issue affecting workers' retirement security. I look forward to working closely with you to advance meaningful pension reform legislation that protects workers rights to fundamental plan information.

Sincerely,

Leslie Kramerich
Deputy Assistant Secretary for
Policy
Pension and Welfare Benefits
Administration

cc: Senator Kennedy

.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:30-JUL-1999 12:25:30.00

SUBJECT: Rosen Edits to English Letter on Pension Reform

TO: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: jane.molloy@mail.doc.gov (jane.molloy@mail.doc.gov [UNKNOWN])

READ:UNKNOWN

CC: donna.shackleford@do.treas.gov (donna.shackleford@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: donald.wellington@do.treas.gov (donald.wellington@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: frank.toohey@do.treas.gov (frank.toohey@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: paul.smith@do.treas.gov (paul.smith@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: David.Richardson@do.treas.gov (David.Richardson@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: mark.iwry@do.treas.gov (mark.iwry@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: william.bortz@do.treas.gov (william.bortz@do.treas.gov [UNKNOWN])

READ:UNKNOWN

CC: sirkin.stuart@pbgc.gov (sirkin.stuart@pbgc.gov [UNKNOWN])

READ:UNKNOWN

CC: gustafson.david@pbgc.gov (gustafson.david@pbgc.gov [UNKNOWN])

READ:UNKNOWN

CC: healy.monica@pbgc.gov (healy.monica@pbgc.gov [UNKNOWN])

READ:UNKNOWN

CC: akers-valerie@dol.gov (akers-valerie@dol.gov [UNKNOWN])

READ:UNKNOWN

CC: holzer-harry@dol.gov (holzer-harry@dol.gov [UNKNOWN])

READ:UNKNOWN

CC: watsons@pwba.dol.gov (watsons@pwba.dol.gov [UNKNOWN])

READ:UNKNOWN

CC: maroney-kevin@dol.gov (maroney-kevin@dol.gov [UNKNOWN])
READ:UNKNOWN

CC: lees@pwba.dol.gov (lees@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

CC: mcknight-avis@dol.gov (mcknight-avis@dol.gov [UNKNOWN])
READ:UNKNOWN

CC: hinzr@pwba.dol.gov (hinzr@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

CC: Lisa B. Fairhall (CN=Lisa B. Fairhall/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Janet R. Forsgren (CN=Janet R. Forsgren/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Laurence R. Jacobson (CN=Laurence R. Jacobson/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Pieter J. Boelhouwer (CN=Pieter J. Boelhouwer/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: amy.null@do.treas.gov (amy.null@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: harlan.weller@do.treas.gov (harlan.weller@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: deborah.walker@do.treas.gov (deborah.walker@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: gillian.hunter@do.treas.gov (gillian.hunter@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: LEONARD.BURMAN@do.treas.gov (LEONARD.BURMAN@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: lisa.andrews@do.treas.gov (lisa.andrews@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: krist.karen@pbgc.gov (krist.karen@pbgc.gov [UNKNOWN])
READ:UNKNOWN

CC: pacelli.jane@pbgc.gov (pacelli.jane@pbgc.gov [UNKNOWN])
READ:UNKNOWN

CC: schub.judy@pbgc.gov (schub.judy@pbgc.gov [UNKNOWN])
READ:UNKNOWN

CC: grant.joseph@pbgc.gov (grant.joseph@pbgc.gov [UNKNOWN])
READ:UNKNOWN

CC: turner-john@dol.gov (turner-john@dol.gov [UNKNOWN])
READ:UNKNOWN

CC: montgomery-edward@dol.gov (montgomery-edward@dol.gov [UNKNOWN])
READ:UNKNOWN

CC: mcgahey-richard@dol.gov (mcgahey-richard@dol.gov [UNKNOWN])
READ:UNKNOWN

CC: lindrewg@pwba.dol.gov (lindrewg@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

CC: lebowita@pwba.dol.gov (lebowita@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

CC: kramerich-leslie@dol.gov (kramerich-leslie@dol.gov [UNKNOWN])
READ:UNKNOWN

CC: Douglas D. McCormick (CN=Douglas D. McCormick/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Bruce D. Long (CN=Bruce D. Long/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Mark D. Menchik (CN=Mark D. Menchik/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: Natasha F. Bilimoria (CN=Natasha F. Bilimoria/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

Three changes to the OMB draft circulated earlier this week. OMB please incorporate changes and send to PBGC and others for final review. Still waiting for reaction from Brain.

(1) The 2nd sentence now reads: "Although we are sympathetic with your intent to encourage defined benefits plans, we strongly object, as we did when similar proposals were suggested in 1995, to the proposal's threat to maintain sufficient assets in defined benefit plans to protect the participants the the Federal pension insurance program." I don't think that works grammatically. How about: "Although we are sympathetic with your intent to encourage defined benefits plans, we strongly object, as we did when similar proposals were suggested in 1995, because the proposal threatens the sufficiency of assets in defined benefit plans to protect the participants the the Federal pension insurance program." Other

changes fine -- just needs to work.

(2) The new last sentence of the first paragraph should read: "In addition, as the issue relates to the provisions of the Internal Revenue Service and ERISA (full name), we recommend that you consult directly with the Treasury and Labor Departments as well."

(3) The final sentence of the last paragraph should read: "In 1995, the President vetoed the Omnibus Budget (get proper title). He cited as one basis for the veto, the provisions of that bill that would have allowed employers to take assets from a defined benefit plan and use them for other purposes. The same concerns are prompted by this proposal."

MARK MENCHIK -- PLEASE DOUBLE CHECK THIS IS AN ACCURATE WAY TO DESCRIBE THE VETO. Thanks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:30-JUL-1999 09:35:42.00

SUBJECT: SAR: Chairman's request

TO: Charles M. Brain (CN=Charles M. Brain/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Janet R. Forsgren (CN=Janet R. Forsgren/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Caroline R. Fredrickson (CN=Caroline R. Fredrickson/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TEXT:

Chuck -- See below. This is a case where DoL wants to send a letter against a provision that is in one of the various tax bills. Jeffords asked for their views and groups want them to speak to say we don't like it and why. Assuming we vet content, any objection?

Similarly, there was a PBGC letter that we delayed until after the House mark-up, that would say on the record that we dislike an amendment by Rep. English (that thus far was not included but which might be on Senate floor or in conference) -- in fact we dislike it so much that something similar was one of the bases for the President's veto of th 1995 reconciliation bill (we called it pension raiding). Again, any objection? In both cases, the letters have been written to the proposal author about their proposal with no reference to the provisions status either in or out of any pending bills.

----- Forwarded by Sarah Rosen Wartell/OPD/EOP on
07/30/99 09:31 AM -----

Maroney Kevin <maroney-kevin@dol.gov>

07/30/99 09:07:34 AM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP
cc: Kramerich Leslie <kramerich-leslie@dol.gov>
Subject: SAR: Chairman's request

Sarah: Here is a draft of a letter that we would like to put into OMB clearance today addressing proposals to modify ERISA's Summary Annual Report requirement. Although we are acutely aware of WH legis affairs'

rule

("i.e., Chuck Brain Rule") discouraging these kinds of letters, we would like to try and advance this letter for various reasons. (1) Chairman Jeffords has asked us to do so. (2) The pension rights advocacy groups are nervous about this provision and it would give them comfort for us to issue a letter. (3) Unlike many of the tax code changes, changes to the SAR tend to fall below the radar screen.

Finally, note that we do not refer to any specific legislation, especially any pending tax legislation, but have drafted a very general letter.

Do you see any problems with this approach? I can be reached at 693-4610 if you have any questions.

THANKS! :)

DRAFT DRAFT DRAFT DRAFT DRAFT DRAFT

The Honorable James Jeffords
Chairman, Committee on Health,
Education, Labor and Pensions
United States Senate
Washington, D.C. 20510

Dear Chairman Jeffords:

This is in response to your request for the Department of Labor's views on pending legislative proposals that would amend the summary annual report (SAR) provisions in section 104 of the Employee Retirement Security Act of 1974 (ERISA). Specifically, the proposals would eliminate the requirement that plan administrators annually distribute a summary report of the plan's financial condition to plan participants, and instead require that SARs only be made available for examination with copies furnished only upon request. We believe such a change would be inconsistent with a fundamental policy of ERISA to help protect workers' interests in their employee benefit plans through required disclosures of financial and other information about the plan.

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this information has already been compiled, it is not burdensome for plan administrators to prepare a SAR. In addition, under guidance published by the Department, plan administrators are permitted to disseminate the SAR through electronic means, including e-mail and the Internet, which are efficient and cost-effective ways of disseminating information to plan participants.

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Thank you for the opportunity to express our views on this important issue affecting workers' retirement security. I look forward to working closely with you to advance meaningful pension reform legislation that protects workers rights to fundamental plan information.

Sincerely,

Leslie Kramerich
Deputy Assistant Secretary for
Policy
Pension and Welfare Benefits
Administration

cc: Senator Kennedy

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kramerich Leslie <kramerich-leslie@dol.gov> (Kramerich Leslie <kramerich-leslie@dol.gov> [UNKNOWN])

CREATION DATE/TIME:30-JUL-1999 09:27:21.00

SUBJECT: FW: Chairman's request

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

READ:UNKNOWN

CC: Maroney Kevin <maroney-kevin@dol.gov> (Maroney Kevin <maroney-kevin@dol.gov> [UNKNOWN])

READ:UNKNOWN

TEXT:

The rest of the reasoning behind my desire to do this is (1) we were approached by the Pension Rights Center person who will in a week be the new ERISA counsel at the Education & Workforce Committee about doing this, (2) Rep. Andrews, Ranking Dem on that Committee is interested in protecting this provision and tried to do so unsuccessfully in the markup, and (3) we are trying to work with Rep. Andrews to convince him to withdraw his support for the "double jeopardy" provision we must oppose so strongly, and (4) we are hoping groups like PRC will oppose, too, the double jeopardy provision, but they of course ask that we help on other things they feel greater need to spend their efforts on. Finally, Senator Jeffords' staffer is not only the strongest proponent of the double jeopardy provision, she is also reportedly opposed to this provision changing the SAR and is encouraging this letter from us. That's the rest of the landscape. Thanks.

From: Maroney Kevin
Sent: Friday, July 30, 1999 9:07 AM
To: Sarah_Rosen_Wartell@opd.eop.gov
Cc: Kramerich Leslie
Subject: SAR: Chairman's request

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THANKS! :)

DRAFT DRAFT DRAFT DRAFT DRAFT DRAFT

The Honorable James Jeffords
Chairman, Committee on Health,
Education, Labor and Pensions
United States Senate
Washington, D.C. 20510

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Thank you for the opportunity to express our views on this important issue affecting workers' retirement security. I look forward to working closely with you to advance meaningful pension reform legislation that protects workers rights to fundamental plan information.

Sincerely,

Leslie Kramerich
Deputy Assistant Secretary for

Policy

Pension and Welfare Benefits

Administration

cc: Senator Kennedy

.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 4-AUG-1999 11:26:02.00

SUBJECT: Re: LRM OGG67 - - Pension Benefit Guaranty Corporation Revised Report on Pension Reform

TO: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TEXT:

I am confused. I don't think the 3rd and 4th paragraph raise technical concerns -- they explain why PBGC reached the conclusion that it will increase risk and thus why we object.

With Mark's edits, we simply assert it increases risk without explaining why. I agree that pBGC's explanation is very technical and could be clarified, but I don't understand what Mark's concern is.

Maybe Mark and Stuart Sirkin (who wrote the letter) should just talk.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Paul J. Weinstein Jr. (CN=Paul J. Weinstein Jr./OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 4-AUG-1999 16:03:36.00

SUBJECT: Opportunity Gap

TO: Gene B. Sperling (CN=Gene B. Sperling/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Ron Klain (CN=Ron Klain/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TEXT:

The Orszag Brothers (Peter and Jon) just put this together and I think several of their ideas fit the theme of the "opportunity speech." I can work with them to develop longer one-pagers on those proposals you think have merit.

Tax credit to financial institutions for IDAs. The Administration budget included a \$20 million proposal to create individual development accounts (IDAs) so that low-income Americans can receive help to save for a first home, post-secondary education, or a new business. The Vice President could build on this proposal by providing a tax credit to financial institutions for sponsoring IDAs. This would be complementary to the CDFI tax credit included as part of the New Markets Initiative.

Pension reform. The Republican approach to pension reform would provide the vast majority of its benefits to executives and high earners who already enjoy much higher rates of pension coverage than lower- and middle-income workers. You could propose a series of new pension initiatives -- going beyond what the Clinton Administration has already proposed -- for working Americans that would not rely on the Republican's faulty "trickle down" approach.

National dropout age. Some states currently allow students to drop out of school at age 16. The Vice President could propose a national standard of 17. Evidence shows that keeping students in school until age 17 raises their future earnings.

Universal job training. One problem with the job training system is that workers do not believe that it will be available for them at all stages of their careers. The Vice President could propose increased funding to ensure that job training programs were available on a lifetime basis. He could also propose reforming the job training system beyond the changes enacted last year. The Administration's original job training proposal went far beyond the final legislation signed last year.

Digital Divide. The e-rate helps address the digital divide problem among children. The Vice President could propose a dramatic increase -- perhaps

doubling or tripling -- the budget for community technology centers to address the digital divide among adults. The FY 1999 budget for these centers is \$10 million; the FY 2000 proposal is for \$65 million.

Secondary market for economic development loans. To build on the new markets initiative, you could propose steps to create a secondary market in economic development loans. Fannie Mae and Freddie Mac have transformed the home mortgage market by securitizing the original loans. A secondary market in economic development loans could prove similarly beneficial to America's under-served communities.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Mark D. Menchik (CN=Mark D. Menchik/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 4-AUG-1999 11:34:58.00

SUBJECT: Re: LRM OGG67 - - Pension Benefit Guaranty Corporation Revised Report on Pension Reform

TO: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

I agree with Sarah's point. Let's go with this much-revised letter as is.

M.

Oscar Gonzalez

08/04/99 11:29:40 AM

Record Type: Record

To: Mark D. Menchik/OMB/EOP@EOP

cc:

Subject: Re: LRM OGG67 - - Pension Benefit Guaranty Corporation
Revised Report on Pension Reform

Mark,

I forwarded your suggestion on the PBGC letter to Sarah, and this is what she replied. How do you want to proceed?

Oscar

----- Forwarded by Oscar Gonzalez/OMB/EOP on 08/04/99
11:32 AM -----

Sarah Rosen Wartell

08/04/99 11:25:48 AM

Record Type: Record

To: Oscar Gonzalez/OMB/EOP@EOP

cc:

Subject: Re: LRM OGG67 - - Pension Benefit Guaranty Corporation
Revised Report on Pension Reform

I am confused. I don't think the 3rd and 4th paragraph raise technical concerns -- they explain why PBGC reached the conclusion that it will increase risk and thus why we object.

With Mark's edits, we simply assert it increases risk without explaining why. I agree that PBGC's explanation is very technical and could be clarified, but I don't understand what Mark's concern is.

Maybe Mark and Stuart Sirkin (who wrote the letter) should just talk.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 4-AUG-1999 11:19:38.00

SUBJECT: Re: LRM OGG67 - - Pension Benefit Guaranty Corporation Revised Report on Pension Reform

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

Sarah,

What do you think of Mark's suggestion below? Let me know.

Thanks

----- Forwarded by Oscar Gonzalez/OMB/EOP on 08/04/99

11:22 AM -----

Mark D. Menchik 08/02/99 04:27:59 PM

Record Type: Record

To: Oscar Gonzalez/OMB/EOP@EOP

cc:

Subject: Re: LRM OGG67 - - Pension Benefit Guaranty Corporation
Revised Report on Pension Reform

I still think that the third and fourth paragraphs should be deleted, since we shouldn't be raising technical objections when we disagree in principle. The last sentence of the fourth para ("Accordingly . . .") should be moved to become the next-to-last sentence of the first para. The moved sentence should begin "Our view is that the proposal would increase the risk . . ."

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: nahmed@barents.com (nahmed@barents.com [UNKNOWN])

CREATION DATE/TIME: 5-AUG-1999 17:44:26.00

SUBJECT: From Barents Group of KPMG

TO: Robert F. Wescott (CN=Robert F. Wescott/OU=OPD/O=EOP [OPD])

READ:UNKNOWN

TEXT:

Mr. Wescott,

As promised, attached are two write-ups about the Economics and Public Sector Practice of Barents Group. The first provides an overview of all five practice areas, namely tax, public sector management, applied economics, international health (mainly pension reform) and information technology. The second document contains quite an extensive write-up on some of our projects, covering areas such as public financial management, tax and fiscal policy and macroeconomic reform.

It was very nice talking to you, and I do hope that we will have the opportunity of working together in the near future. I look forward to meeting you, and would like to further explore the possibility of arranging a meeting with some of our senior staff in Washington. In the meantime, please don't hesitate to call me if you have any questions or need additional information.

Best regards,

Nahleen Ahmed

Barents Group of KPMG
2001 M Street, NW
Washington, DC 20036

Tel: (202) 331-4544
Fax: (202) 728-0546

(See attached file: Epsrgene.doc)(See attached file: Epsr-wid.doc)

- Epsrgene.doc - Epsr-wid.doc===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D34]ARMS242592810.236 to ASCII,
The following is a HEX DUMP:

===== ATTACHMENT 2 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

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Y [bjbjWW !=:"]8\$~<
[[]]<oE\$4(i,,i,L,[2S[4qKxSEconomic and Public Sector Reform PRACTICE

Economics and Public Sector Reform Practice of Barents Group is a leading provider of economic advisory services to governments around the world, particularly in the areas of budgeting and financial management, tax policy and administration, computerization, trade policy and macroeconomic analysis, and health and social protection policy. Barents Group provides governments with the sophisticated tools necessary to enhance their decision-making skills and improve their fiscal management systems. We have brought together a group of international specialists to establish a major center of economic, fiscal and financial policy, administration, and computerization expertise, to respond to the specialized needs of ministries of finance and economy, treasury departments, revenue departments, central banks, and financial institutions around the world.

Our approach to providing these services is highly focused and results-oriented. Indeed the key test of success is not just analysis of the issues or experience in working in the area, but rather the successful design and implementation of fiscal reform programs and modern financial systems around the world. Most of our international projects involve providing teams of technical advisors to develop fiscal and economic reform programs that have been approved by both executive and legislative branches of governments, and assisting central and local governments in implementing the policy and administrative reforms. An important component of our efforts dealing with tax administration, budgeting and financial management has been the design, development and installation of computerized systems for tax administration and financial management.

Select
ed Projects in Financial Management

Computerization - Treasury Department of Kazakhstan

Barents Group is currently engaged in a World Bank-sponsored project to computerize the Treasury Department of the Republic of Kazakhstan. The project team, which includes accounting and EDP advisors, is designing the accounting system, including: the complete chart of accounts, system requirements analysis, development of hardware and software specifications, and issuing of the request for proposal for programming services. Barents Group will be responsible for monitoring vendor performance, testing the accounting system, and developing training courses. The team will develop computerization and human resource plans for the Ministry of Finance, train government staff in the use of the system and in system development techniques, and will supervise replication of the system to regional offices of the Treasury Department.

External Debt Management
t - Ministry of Finance of Kazakhstan

Barents Group is currently assisting the Ministry of Finance in improving its external debt management function. The initial work is focused on a review of the current institutional arrangements between the Ministry of Finance, the Central Bank and the Ministry of Economy; the compilation, reconciliation and analysis of the data on external debt (a large and time consuming task); and conducting basic training in economics and financial analysis. Current activities are focused on conducting technical analysis (e.g., debt capacity, sensitivity analysis concerning interest and exchange rates, etc.) of the existing debt portfolio; assisting in drafting a law on external debt; and conducting the requirements analysis for the selection and installation of a computerized debt management system and then procuring and/or developing a computerized debt management system for the Ministry of Finance.

Inter governmental Fiscal Relations - Kazakhstan

Barents Group is currently providing technical assistance of the Ministry of Finance of Kazakhstan on intergovernmental fiscal relations. Initially, Barents Group staff completed an analysis of the legislative and budget processes shaping the scope of intergovernmental fiscal relations. This effort included analyses of per capita expenditures, revenue and expenditure distribution and the budget effects of applying different grant formulas. The Firm was also requested to provide an analysis of the Russian formula-based Grant Distribution System. Results of these studies were presented to MOF officials to be used in the further development of policy and administrative reforms.

After completing this analysis, Barents Group then developed and implemented an intergovernmental finance model. Our staff also led efforts to computerize the Local Government Budget Office and the Office of Macroeconomic Policy and Statistics within the MOF, and provided training for personnel in conducting budget analyses. Additional computerization advisory services were provided to the Central Bank of Kazakhstan and the MOF's Department of Debt Management.

Intergovernmental Fiscal Relations - Kyrgyzstan

As part of its Fiscal Reform Project in Kyrgyzstan, Barents Group is providing technical assistance to the Ministry of Finance on intergovernmental fiscal relations. The initial work has focused on developing a computer simulation model and database for the seven oblasts and central government of Kyrgyzstan. The database includes revenues by source and expenditure by function for each unit of government. The model provides a mechanism to allocate revenues from the central government to the oblasts based on weighting schemes that take into account relative populations, per capita incomes, and other socio-economic characteristics. Barents has begun preliminary analysis using the model to study alternative grant allocation formulas, including one option based on the formula currently used in Russia. Barents has also drafted a working paper on the current state of intergovernmental finance in Kyrgyzstan, and outlined a plan to provide the Ministry of Finance with specific policy options regarding the consequences of numerous alternative grant allocation formulas that take into account national standards in education and health, tax capacity equalization, and deprivations across oblasts.

Technical Assistance in Fiscal and Legislative Analysis for the Moldovan Parliament

Barents Group is currently assisting the Budget and Finance Committee of the Parliament of Moldova in improving its economic and budget legislation and in developing a policy analysis unit (PAU) within the Committee. The project team consists of a Senior Economic Advisor, an experienced Legal Advisor, and several short-term consultancies. Their work includes the following: (1) providing policy advice on a broad range of issues, including budget policy and intergovernmental relations; (2) conducting a study tour in the United States for Members of Parliament and senior parliamentary staff to include visits to top federal and legislative budgetary staff; (3) reviewing and evaluating the process for drafting and approving economic legislation; (4) reviewing existing information systems in the Parliament and recommending changes to facilitate the development of a fiscal information system to support the work of the PAU; and (5) preparing and implementing fiscal analyses of proposed legislation.

I ntergovernmental Fiscal Relations - Government of Moldova

Barents Group assisted the Government of Moldova in the design of a new structure of intergovernmental fiscal relations, including assistance in the assignment of expenditure responsibilities for each level of government, the assignment of revenue sources, and the design of intergovernmental transfers. The Firm prepared and delivered a seminar for republican and local governmental officials on systems of intergovernmental fiscal relations in advanced countries. Barents Group also reviewed the existing structural design of intergovernmental fiscal relations and plans for reform of the existing structure; and gathered the data and information necessary to perform quantitative analysis of the fiscal impact of the reform scenario on each level of government. Barents Group reviewed the current status of property taxes in the context of Moldovas privatization plans with the aim of developing property taxation as a revenue source for local governments.

Development of Treasury Department - Ministry of Finance of Moldova

Barents Group has been providing technical assistance to the Ministry of Finance of Moldova in the design and establishment of a central government treasury function. This work has included: an analysis of the commitment and spending processing, cash management of accounts and budgetary accounting systems and reporting; a review of the overall structure and functional responsibilities of the Ministry of Finance and its relationship to line ministries, the State Tax Inspectorate, and the National Bank, and the evaluation of the operation of regional treasuries. The initial phase of the project developed a strategy and master plan for the implementation of a new treasury function within the Ministry of Finance.

Revenue Estimation and Intergovernmental Fiscal Relations - Ministry of Finance of Russia

Barents Group is providing technical assistance to the Ministry of Finance

nce in Russia on revenue estimation and intergovernmental fiscal relations. The work being conducted by the Projects four resident advisors includes four main tasks: (1) conducting a comprehensive review of the intergovernmental fiscal relations; (2) designing and implementing a fiscal information system; (3) developing analytical models to assist the FAU in carrying out its tasks of revenue and expenditure forecasting, fiscal impact analysis, analysis of alternative local tax programs, and monitoring the efficiency of local tax collections; and (4) developing a training plan to support the efforts of the above tasks.

Technical Cooperation in Fiscal Administration - Russian Parliament (Duma)

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ents Group is working with the Russian Parliament in strengthening its capacity to analyze and evaluate proposed legislations effect on expenditures and revenues, at both the national and regional level; provide analytical background necessary to assist members of Parliament in developing new legislation; and track performance of the federal and regional budgets.

Design of Computerized Financial Management System - Moscow Oblast Finance Committee

As part of a comprehensive project dealing with intergovernmental fiscal relations in the Russian Federation, Barents Group is assisting the Moscow Oblast Finance Committee in the design and development of a computerized financial management system. The goal of this project is to enable the Finance Committee to better manage its financial resources and monitor program execution. The systems development component of the project is complemented with technical assistance to improve current budgeting practices, including improving the Committees ability to forecast and expenditures, analyzing the effectiveness of a variety of important expenditure programs, monitoring the revenues and expenditures throughout the year, and allocating and tracking grants from the central government to the regional and local governments.

Kharkiv Housing Conditions and Attitudes Toward Reform

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ts Group staff, together with the Urban Institute, completed a study of housing conditions and attitudes towards housing reform in Kharkiv, the second largest city in Ukraine. The resulting reports, based on a survey of 1500 households in November 1994, provide the most comprehensive picture available of the housing sector in Kharkiv at the beginning of Ukraines transition from a Soviet-style planned economy to a Western-style market economy. These documents provide U.S. and Ukrainian policymakers with an important baseline for measuring the effectiveness of housing reforms and associated assistance programs.

Technical Assistance in Budgeting for the Ministry of Finance of Uzbekistan

Barents Group

is currently assisting the Ministry of Finance of Uzbekistan in modernizing its budget process and legislation. The project team consists of a Senior Budgeting Advisor and several short-term consultancies. Their work includes the following: (1) providing advice on a broad range of issues, including potential

reforms in budgeting processes and procedures to emphasize performance (or program) based budgeting; (2) conducting a detailed analysis of the existing budget and revenue classification system, and providing recommendations for reform that are consistent with International Monetary Fund (IMF) guidelines; (3) reviewing and evaluating the process for drafting and approving economic legislation, including the State Finance Law; (4) reviewing local budgeting procedures and identifying areas for reform; and (5) preparing and implementing a detailed training program for budget analysts.

Budgeting and Intergovernmental Finance in Bosnia & Herzegovina

Staff of Barents Group participated in World Bank missions to Bosnia and Herzegovina. The purpose of the missions was to analyze the revenues and expenditures of municipalities in Bosnia and Herzegovina; to develop 1996 budgets for the Cantons as required by the Dayton Agreement; and to analyze various revenue assignment alternatives between the State, the Federation and the Cantons. The missions concluded with a written report that summarizes the missions key findings on the above issues.

Local Government Initiatives in Bulgaria

Barents Group is providing technical assistance to the Government of Bulgaria to manage and implement its Municipal Development Program. The Program will work with 10 pilot cities, and is designed to strengthen local governments capacities to govern democratically and effectively, raise revenues, and meet the needs of its citizens. The Program also works to develop associations; coordinate and complement reforms at the national government level; and assist cities in economic development efforts.

In its oversight role with the Program, Barents Group is integrating and coordinating the various implementation efforts, and will assist in the periodic review and revision of the overall strategy as necessary. Barents Group will develop conferences and study tours for local government, central government, and donor community officials. The Firm is also assisting in the development of the pilot cities program for local governments, and in coordinating the many assistance projects that it will provide.

Analysis of Fiscal Federalism in Bulgaria

Barents Group recently conducted a project to assist the Government of Bulgaria in establishing a new local government and intergovernmental finance structure that would increase the degree of fiscal decentralization. This project included a detailed review of Bulgaria's current practices, an analysis of the new draft legislation affecting local government organization, responsibilities and financing, and the development of an intergovernmental finance computer model. The study presented specific recommendations outlining criteria for expenditure assignment, tax assignments, intergovernmental transfers, borrowing, extra-budgetary funds and privatization in local government finance. This work specifically addressed the issues of tax sharing, local tax and non-tax revenue sources, user fees and a system of intergovernmental grants. The intergovernmental finance model was developed to allow Bulgarian policy-makers to analyze different revenue and spending arrangements

between the central government and the various local governments (obshtini). The model measures the implications of different grant formulae and revenue assignments for the budgets of each individual obshtini. Barents Group installed the model on the microcomputers at the Ministry of Regional Development and Construction in Bulgaria and provided training to ministry staff in its applications.

Municipal Economic Development in the Czech Republic

Barents Group is currently providing technical assistance to municipal governments in the Czech Republic. The project team is creating economic development strategies for six pilot cities, and will assist these cities in the implementation process. As the program progresses, lessons learned from these cities will be incorporated into the development of a training program for use in both the public and private sectors. The training program will be delivered to municipalities and universities throughout the Czech Republic, in an effort to institutionalize the practice of strategic economic planning.

The project is part of a USAID-sponsored program to provide public administration assistance to Central and Eastern European countries at the national, regional, and municipal government levels. The focus of the program is to provide reforms in the following areas: Public Management Training; Personnel Systems; Organizational Management; Budgeting Systems; Regulatory Systems; Transparency of Process; Accountability; Decentralization; Intergovernmental Finance; Local Self-Governments; Procurement; Future Public Administrators; and Managerial/Administrative Services.

Intergovernmental Fiscal Policy - Government of the Czech Republic

Barents Group conducted a study of the intergovernmental fiscal policies for the Czech Republic in 1992. The initial focus of the project was the appropriate structure of the regional and local government as it relates to economic development, taxation and expenditure policies. The study included an evaluation of the draft legislation on regional economic policy, with particular attention being paid to establishment of a grant formula to distribute funds from the central government to the district governments. At the request of the Government, Barents also conducted a three-day seminar on this topic for Members of Parliament, Members of the Czech Ministry of Finance and local government officials.

Intergovernmental Fiscal Relations in Hungary

Staff of Barents Group recently participated in a World Bank mission on local government finance in Hungary. The purpose of the mission was to review the Government's 1996 budget proposal and to design a comprehensive proposal for the reform of local government finance in Hungary, including: (1) reform of the normative grant system; (2) introduction of a supplementary income tax and of an ad-valorem property tax; and (3) establishment of a capital budget for local governments. The team developed detailed quantitative analysis of the

e reform and concluded with a written report that summarizes the teams key findings and recommendations on the above issues.

Local Government Fiscal Management Study - Government of Egypt

As a result of the early success of Barents Groups long-term Public Finance Administration Project in Egypt, the Firm was requested to conduct a major new Local Government Fiscal Management Study. This year long study provided the Government of Egypt with advice on the processes and mechanisms required for increased local government basic service provisions and financing. Key issues addressed in the examination of local government expenditures and revenues were: (1) the conceptual relationships between national and local government fiscal operations; (2) the appropriate criteria to determine which services local governments should provide and the operational methodology to estimate fiscal implications of decisions based on these criteria; (3) the level and appropriate source of funding needed to implement a new program of fiscal operations, in particular, revenue sharing, user charges, local taxes and debt financing; and (4) the effect of existing laws, regulations, organizational and management structures on the adoption of local systems of service provision/expenditures and financing, and recommendations for changes.

Local Government Sector of Jordan

Staff of Barents Group participated in a mission for the World Bank on municipal finance in Jordan. The purpose of the Mission was to provide a financial and institutional analysis of the Local Government Sector, including the Cities and Villages Development Bank (CVDB). Key issues examined were: (1) local fiscal operations, and their ties to the Central Government and to CVDB; (2) sources of funds for local governments (own sources, transfers, grants, loans, etc.); (3) services provided by local governments vis--vis the Central Government; (4) the financial situation of the CVDB and its role as a development bank; and (5) decentralization (deconcentration versus devolution). The Mission concluded with a written report on the team's findings on all of these issues.

Budget Rationalization - Government of Kenya

Barents Group staff provided technical assistance to the Ministry of Finance of Kenya in the area of budget rationalization -- including the integration of the ordinary (recurrent) and capital (development) budgets -- with the objective of improving public sector financial management. Using carefully selected software engineering tools for requirements definition, project management, and implementation in a database environment using a fourth generation language, distributed microcomputer-based information systems were developed and implemented, including a fully integrated national budget, accounting and expenditure control, management of external resources, and external debt management.

The microcomputer-based National Budget system developed for the Government automates the task of budget preparation and analysis, improving the timeliness and import of the budget document. The system is distributed across all line ministries in the Government, allow

ing for the formalized interaction of financial planners at the regional and ministry levels with Treasury budget officials. Due in part to this computerization effort, budget preparation has been transformed from a time-consuming, error-prone, mechanical exercise, into a dynamic, data-based policy analysis exercise, allowing for more disciplined budget negotiations and a more meaningful national economic plan.

The Kenyan Integrated Budget System fully integrates budget and expenditure data, which includes the integration of microcomputer (budget) and mainframe (accounting) applications. The mainframe computer was used to integrate accounting information for the districts and ministries. Barents Group staff participated in the design and implementation of microcomputer-based District Expenditure and Ministry Expenditure (Votebook) control systems. The systems provide inputs to the mainframe accounting application. They also use processed mainframe accounts information for further processing and analysis, and for integration into budget execution analysis systems, which form a part of the Auditor General's budget audit process.

Barents Group staff participated in the implementation of the Commonwealth Secretariat's Debt Reporting and Management System (CS-DRMS), which provides the Government with a critical tool in budget and development planning. The system tracks the government's portfolio of more than 400 bilateral and multilateral external loan agreements and private sector generated debt agreements. In addition to the implementation of this internationally approved and supported debt management package, Barents Group staff were involved in the development and implementation of a debt management subsystem that improves the Treasury's ability to budget and plan for loan amortization costs (principal and interest payments). The main purpose of the system is to streamline the payment approval process for servicing of the external debt.

Local Government Sector of Palestine

Staff of Barents Group recently participated in two missions for the World Bank on municipal finance in Palestine. The purpose of these Missions was to provide a thorough reconnaissance of issues relating to municipal finance, municipal management, and related institutional and intergovernmental needs in the West Bank and Gaza Strip. The Missions concluded with written reports that set the context for the development of municipal finance and management programs in Palestine and addressed the following topics: (1) Fiscal overview and analysis; (2) Financial management; (3) Intergovernmental relations; (4) Governance and Accountability; and (5) Human Resource Management.

Local Government Finance - Government of South Africa

Barents

Group led a team of international public finance experts in workshops with the Financial and Fiscal Commission of South Africa to advise on issues of municipal, metropolitan, and provincial government finance in South Africa. The workshops focused on the powers of local and provincial governments in the context of South Africa's new Constitution; local government borrowing; grants to metropol

itan and municipal areas; and local revenue systems. The workshops led to recommendations with regard to the following areas: collection and analysis of local public finance data; establishing a system of constraints in the structure of local government; grants to local areas; clarification of the new Constitution; and the development of revenue sources.

Barents Group also assisted in the conceptualization and implementation of grant formulas for allocating central government revenue to the nine newly established provinces of South Africa. This formula was adopted by FFC Commissioners and presented to the Joint Standing Committee on Finance of the South African Parliament. The model, computer program, and database developed for this project allow the FFC to measure provincial allocations for alternative grant formulas and different economic circumstances. The model addresses issues of equalization, national standards for education and health, tax capacity and effort, and transitional problems of implementation. Barents Group also provided training to FFC staff in model applications.

Public Expenditure and Personnel Management - Government of Turkey

Under this recently-completed contract for the World Bank, Barents Group provided technical assistance to the Ministry of Finance of the Republic of Turkey in analyzing budget issues. Barents Group staff reviewed the use of extrabudgetary funds, revolving funds, and annexed budgets; recommended the requisite arrangements for eliminating or rationalizing these funds to improve budget coverage; analyzed the budgeting and control of employment posts and related issues of human resource management; and recommended procedures for managing budgeted employment posts. Barents Group staff also analyzed the compensation system and recommended changes in the payroll system to control personnel expenditures as well as to integrate it better with the new, proposed budgeting process; and recommended appropriate management information systems for payroll processing and post management.

Budget and Financial Management Process Review - Government of Guam

As part of the Financial Management Modernization Project for the Government of Guam, Barents Group provided technical assistance in re-engineering the budget process. This re-engineering effort was designed to assist the Government of Guam in reorganizing, strengthening, and streamlining the budget process as well as changing budgeting practices from more traditional approaches to ones that emphasize client service and performance budgeting.

The project provided a broad set of recommendations, and new policies and procedures for modernizing the budget process, including a redesigned structure for the budget system. This new structure, which includes six reporting levels, will improve reporting and refocus the attention of budget officers and decision makers on analysis of budget issues, instead of line-items of expenditure. A single unified scheme of functional classification was also recommended, in order to define broad, logical categories to classify government activities by agency. This classification will identify functionally overlapping areas and provide information to assess the efficiency of how resources are allocated for delivering public services. Forty special revenue and expendable trust funds were recommended for consolidation.

tion, in order to reduce the cost of maintaining those funds, broaden the base of the General Fund, enhance cash management control, streamline the budget process, and strengthen the ability of the Governor and Legislature to set overall government priorities.

Recommendations were also provided to shorten the length of the budget cycle and to synchronize it with revenue forecasts. These recommendations are consistent with proposed reforms in the computerization of the budget system that will speed up the executive and legislative budget processes. Recommendations were also provided to strengthen the executive budget process as the key mechanism to handle economic growth and budget deficit problems, and to ensure fiscal stability for the future. The budget formulation process was redesigned to focus on three key areas: (1) establishing accurate base level data, (2) calculating the current service level to estimate the cost of continuing currently funded programs, and (3) preparing the agency budget plan to meet the Budget Departments budget ceilings.

Budget execution procedures were streamlined to give agencies more flexibility to manage their budget, to release budget staff from some daily operating control duties, and to redirect resources to focus on performance evaluation and budgeting functions. Significant changes in the budget document format were recommended, including providing an executive budget summary and agency budget documents that clearly identify the Governments vision and incorporate the goals and objectives of that vision into the agency mission, define service delivery units and service outcomes, establish performance indicators, and report historical and projected results.

Finally, analytical tools were developed to assist the Department in decision making. The Project developed and implemented a Multi-Year Budget Planning Model to enhance the budget formulation process by considering the impact of changes in service levels or economic conditions. Staff members of the Budget Department received significant training in the use of this tool.

Ministry of Finance of Indonesia

Barents Group recently completed a review and analysis of the computerized Government Accounting System (GAS) developed under a World Bank project. Barents Group reviewed the design of the accounting system, particularly the audit trails and internal controls, made recommendations for improvement, and analyzed the requirements to move to an open system environment. Barents Group also provided recommendations for open systems and portability standards as well as organizational changes that would be required to implement a new version of GAS based on government accounting standards. The project team met with computer staff and personnel of the Ministry of Finance (MOF) and the accounting department and presented the recommendations. A comprehensive report was prepared for the Government. In earlier work for the Ministry, Barents Group developed the first long-range plan for computerization in the MOF in 1984, and has continued to work with the MOF to revise and update this plan in light of technological advances and the evolving needs of the Ministry. Barents Groups most recent study for the MOF of Indonesia was completed in September 1993. The initial work in this area, resulting in the design and implementation of a distributed processing system for income tax and VAT in district tax offices via multi-user

microcomputers, proved to be successful.

Ministry of Finance of Argentina

Barents Group is currently assisting the Ministry of Finance of Argentina in modernizing its budgeting and financial management system. The project entails applying an integrated financial management system to four pilot ministries, reforming budgeting policies and procedures to be consistent with this new computerized system, invigorating the management and administration of government programs, and providing extensive training to budgeting professionals in the Central Budget Office and the line ministries. The project is also considering mechanisms by which the Government can reinvent itself to improve the efficiency, effectiveness and quality of services provided.

Public Expenditure Management - Government of Barbados

For the Inter-American Development Bank, Barents Group is aiding the Government of Barbados in strengthening its system of public expenditure management. The Public Expenditure Management Program has seven general objectives: (1) to produce a multi-year financial strategy; (2) to improve the existing program budgeting system by centralizing the establishment of norms and decentralizing operations; (3) to improve the capacity of statutory corporations and other public institutions to produce budgets that are compatible with the program budgeting system of the Government; (4) to provide the Office of the Accountant General with support to facilitate the processing of transactions against the consolidated fund; (5) to support the Office of the Auditor General in implementing a value-for-money auditing system; (6) to implement an integrated financial management system; and (7) to identify training programs for government officials.

Given the short project duration (18 months), the project is focusing on opportunities to make short-term improvements that will facilitate the long-term implementation. These opportunities relate to both the process of data flows and the maximization of currently installed software and hardware at the Ministry of Finance, Treasury and the data processing unit.

An underlying theme of the implementation strategy is to build on the strengths of the current system in the short term and to eliminate the duplication of effort, especially with regard to data entry and processing. A key element in this strategy is to simplify and better utilize computer hardware and software currently in use within the Government's financial operations. The project is pursuing a phased approach to implementing this strategy; the first phase of implementation includes a migration from the current word-processing and spreadsheet applications to a relational database environment. This migration to PC databases will facilitate the eventual integration of a government-wide database which is a primary objective of this Project.

The second phase of implementation will entail a move from PC-based databases to a client/server environment, including a centralized repository database that connects and relates the client/server installations. This repository database will link five primary institutional clients.

nt/server locations: (1) Treasury department (payroll, cash, treasury bills, public debt, vouchers payable); (2) Revenue departments (inland revenue, customs and excise, lands valuations); (3) Ministry of Finance (budget, management accounting, public investment unit, public debt); (4) line agencies (planning, budget, accounting, performance management); and (5) Central Bank (fiscal bank accounts, public debt). Each institution will manage and administer its respective database, but there will be data sharing, data interchange, and data summaries in the overall system as required and appropriate.

Barents Group worked closely with KPMG Barbados and KPMG Victoria (Canada) on this project.

Fiscal System Action Plan - Government of El Salvador

Barents Group analyzed the activities in the Ministry of Finance in El Salvador and identified the areas in need of technical assistance. The analysis presented detailed recommendations in the areas of direct and indirect tax policy, tax administration, customs administration, budget, treasury, and computerization. A primary focus of the evaluation and recommendations was the identification of the necessary steps for a transition from a stamp tax to a value-added tax. We developed a detailed schedule of activities for the implementation of the VAT. Our report also defined the scope of effort needed for a long-term technical assistance project for the modernization of all ministry areas, including the terms of reference for resident and short-term technical experts, a detailed work plan for the first year of the project, and a description of activities in each area.

Integrated Financial Management Project - Government of El Salvador

Barents Group recently completed an Integrated Financial Management Project for the Ministry of Finance in El Salvador. The main objective of the two-year project was to assist the Salvadoran Government in modernizing its budgeting, treasury, accounting, debt management, and financial management procedures and systems. The project includes five resident advisors that work directly with Ministry officials in the implementation of policy and administrative reforms.

Some of the main project activities included: development of a system for budget preparation, allocation, formulation, execution, evaluation, design of a multi-year budget plan, design of a system of cash-flow programming to ensure prompt payment of government obligations, development of mechanisms to strengthen the internal control over treasury operations, design of a public debt policy and assistance to Ministry officials in the renegotiation of the public debt; and design, programming, and installation of the computer applications necessary to support the financial modernization of the public sector in the areas of budgeting, treasury, and public debt.

The Integrated Financial Management Project emphasized the design and implementation of systematic methods by which the Salvadoran Government can improve the allocation of its resources in meeting its social, development, and economic

goals. This comprehensive approach improves the planning, operations and supervision capabilities of the Government in its fiscal decisions, and integrates the entire budget formulation, execution, and auditing processes into the overall framework of the Government's economic policy.

The project team completed on

an integrated government accounting application and the development of key customized information systems for the Budget Department. After the initial requirements analysis, the project team developed a budget formulation and budget monitoring system. The computer system designed and developed by the project team provides the budget analysts the tools to manage this data and perform analyses on the aggregate impact of the budget submissions. The system also prepares the final budget for camera-ready publication. Once the budget has been approved, the database of approved budget amounts becomes the base for the operations of the accounting module described above. Data from the accounting system on actual expenditures and receipts flows back to the budget directorate on a periodic basis to allow the budget analysts the capability to monitor budget execution.

Ministry of Finance of Guatemala

As part of the USAID-funded Fiscal Administration Project, Barents Group provided assistance to the Ministry of Finance in several areas of budgeting including: design of standardized formats for spending agencies' budget requests; development of norms on budget execution for inclusion in budget law; development of processes for system of budget execution; development of model for periodic management report of budget situation; review of government investment project selection process; and the development and implementation of receipts forecasting and monitoring model and a budget execution model. The receipts forecasting and monitoring model and the budget expenditure model have been installed in the Ministry of Finance and allow budget officials to develop multi-year budget forecasts.

Budget Address and Medium-Term Policy Framework

Barents Group and KPMG Peat Marwick prepared several reports for the Minister of Finance to assist the newly elected government develop its 1996 budget address and its framework for medium-term (three to five years) economic policy. Working closely with MOF and other government officials, the Advisory Team investigated current tax structure and spending policies to develop short- and medium-term policy recommendations in several key economic and social areas, including fiscal policy, trade and investment promotion, energy, tourism, employment programs, training, and social transfers.

Specific recommendations

Recommendations, consistent with the government's initiatives and budget constraints, were designed as building blocks for a sustainable policy environment. Characteristics of such a policy environment include a disciplined public sector that lives within its means and if possible generates surpluses, thriving and competitive financial institutions and capital markets that can finance the investment needs of the public and private sectors at reasonable interest rates, and a tax policy that is stable and predictable and that supports private investment through a regime of broad tax bases and low tax rates.

Selected Experience in Macroeconomic, Monetary and Fiscal Policy

Macroeconomic and Structural Reform - Ministry of Economy of Armenia

Barents Group provided technical assistance to the Ministry of Economy of Armenia on macroeconomic and structural reform. The assistance has focused on the following areas: implementation and monitoring of the economic reform program to support the transition to a market economy; drafting of a Public Investment Program, recommendations on industrial policy, assistance on trade policy reform to fulfill conditions for membership to the World Trade Organization, and assistance in loan negotiations with the World Bank and the International Monetary Fund.

Macroeconomic and Structural Reform - Government of Georgia

Barents Group provided technical assistance to the Deputy Prime Minister of the Government of Georgia on a broad range of structural adjustment issues, including fiscal policy, foreign exchange management, balance of payment issues, and the development of an economic reform program. The Projects resident advisor also advised the Government on monetary policy and the introduction of a new currency, and assisted in loan negotiations with the International Monetary Fund and the World Bank.

Introduction of New Currencies with in the former Soviet Union - Analysis of the Process

Barents Group conducted a comparative analysis of the experience of the governments of the former Soviet Union in leaving the Ruble zone and issuing their own national currencies, including policy and operational suggestions to facilitate USAID's ability to develop assistance programs. The analysis emphasized the lessons learned in the introduction and management of currencies in these countries and used the Argentine example to illustrate the close linkage between monetary policy and price stability. The Argentine example demonstrates that a sound monetary policy is a prerequisite to price stability.

Monetary Policy Advisory - National Bank of Kazakhstan

Barents Group is currently assisting the National Bank of Kazakhstan in a two-year project to provide macroeconomic and monetary policy advice. The Firm has undertaken four primary tasks: training of NBK staff in economic analysis and applied econometrics; direction of NBK staff research and policy analysis; monetary and macroeconomic data management and quality control; and providing advice directly to the Governor and Deputy Governors of the NBK on policy initiatives, financial legislation and other proposals.

Barents Group is also

constructing econometric models (time series and structural) for forecasting and as teaching tools in the training of NBK staff. The Firm is conducting analyses in several issues including monetary policy issues, exchange rate policies, national income and financial data formatting issues, central bank independence, and arguments concerning development banks and customs unions. Based on our collective work, the Firm is designing the elements for evaluating Kazakhstan's monetary policy program for 1996-1997.

Technical Assistance to the Central Bank of Egypt

Barents Group is providing technical assistance to the Central Bank of Egypt (CBE) to create tools for the CBE to confidently assert its policy initiatives through indirect monetary control. The objectives under this multi-task project include: implementation of an Executive Development Program for mid-level managers tailored for CBE requirements based on a training needs assessment; constructing a macroeconomic model of the Egyptian economy and short-term financial sector forecasting models to support quantitative monetary policy directives; development of an integrated computerized database of the Egyptian economy; and training of research department personnel in econometric modeling and forecasting techniques.

Macroeconomic Policy Advisory - Government of Kyrgyzstan

Barents Group provided policy advice and training services in macroeconomic policy to the Ministry of National Economy of Kyrgyzstan. As part of a USAID-funded project, Barents Group staff conducted an analysis of ongoing policy initiatives and financial and regulatory proposals, including evaluations of potential customs union participation with Central Asian CIS member states; exchange rate agreements; and water law and treaties. The Firm also conducted an assessment of the economic effects of the underground economy, and provided ongoing advisory services with respect to IMF structural adjustment programs.

Barents

Barents Group also developed training programs that included courses on macroeconomic and monetary policy, forecasting techniques, and the use of econometric statistical packages. The Firm built a forecasting model for GDP and inflation to be used in policy evaluation and as a training tool. Incorporating the broad scope of the project work, Barents Group constructed a long-term economic development program for Kyrgyzstan for the next ten years.

Technical Assistance on Macroeconomic and Monetary Policy to the Government of Kyrgyzstan

Barents Group is

currently providing technical assistance to the State Committee for Economics (SCE) on macroeconomic and monetary issues. The team for the first phase of the assistance consisted of one financial/monetary economist and one macroeconomist. The team recommended the formation of the Office of Macroeconomics Advisor to provide technical training to the macroeconomics group within SCE as well as economic and statistical training to the National Bank of Kyrgyzstan, the National Committee on Statistics, the State Investment Committee and the Ministry of Finance.

Policy advice was given on a broad range of issues. Some issues where advice was sought include: the creation of development bank; the Agreement on a Unified Trade Zone; the acceleration of privatization process; the development of a macroeconomic forecasting model and the resolution between the Government and the IMF regarding the technical issue of GDP deflators.

Strengthening Ministry of Finance - Government of Kyrgyzstan

In mid 1996, Barents Group undertook an Asian Development Bank financed technical assistance program to strengthen the Ministry of Finance capacity for applying economic analysis to its considerations of economic policy choices. The project is envisaged is summarized in three functions: Implementing a system to track deviations from the governments indicative plan; improving economic forecasts based on an objective methodology; enabling MoF to track the development of key regional or sectoral enterprises. The project entails three ongoing components: the installation of a computer network, the implementation of a macroeconomic database and the training of staff economists and statisticians in modern econometric methods, modeling and computer use. The training program for MoF staff required for this program is being implemented by Barents staff and UNDP volunteer economics instructors under Barents supervision.

Technical Assistance on Monetary Policy
to the Parliament of Moldova

Barents group assisted the Chairman of the Budget and Finance Committee of the Parliament of Moldova in monetary and credit policy. At the time of the report, this Committee had oversight over the National Bank of Moldova. Barents addressed questions concerning monetary and credit policy by investigating the procedures and reporting methods of the National Bank of Moldova, explaining them and assessing the results of these approaches to monetary policy.

Technical Assistance on Macroeconomic Policy - Government
of Tajikistan

Barents Group conducted an analysis of economic reform issues for the Ministry of Finance and the Ministry of Economy of Tajikistan. The study included an in-depth analysis of four specific areas of economic policy: (1) privatization; (2) price liberalization and subsidies; (3) social sector programs and the social safety net; and (4) fiscal stabilization. Barents Group offered specific recommendations in each of the substantive policy areas, and identified priorities for reforms.

Fiscal Analysis Unit - Ministry of Finance of Ukraine

Barents Group is working closely with government counterparts in the Central Bank, the Ministry of Finance and the Ministry of Economy to establish a Fiscal Analysis Unit, under the sponsorship of USAID. This Unit will provide ongoing technical analyses and support to the Ministry of Finance in tax policy and macroeconomic issues. The staff has analyzed numerous fiscal and economic i

ssues, provided extensive training in Western economics to counterparts, and established detailed socio-economic databases. The Firm has also worked closely with the Ministry of Economics in analyzing the informal economy in Ukraine. Barents Group

customized economic forecasting models, using FoxPro and the Windows environment, and is implementing these models in Russian.

Technical Assistance in Monetary Policy and Analysis to the National Bank of Ukraine

Barents

Group is assisting National Bank of Ukraine in developing a Policy Analysis and Research Department (PARD) as a permanent unit of the Bank. The unit would perform research and analysis to provide policy makers with solid information on the implications of various policy options for key measures of performance such as price inflation, growth, employment, income distribution and poverty. During the first year of project, Barents developed and implemented a training program designed to increase the technical capability of the staff of the PARD in monetary policy and Monetary analysis.

Economic Policy Advice to the Government of Uzbekistan

Barents Group provided technical assistance to the Government of Uzbekistan on economic policy for the transition to a market economy. The assistance was lead by one resident advisor who provided background information and position papers on economic reform, including recommendations on macroeconomic restructuring issues. The advisor assisted the Government to establish policy instruments and regulations required for financial stability. In addition, he conducted seminars at the University of World Economics and Diplomacy at frequent intervals during his tenure.

Monetary Reform Technical Assistance to Uzbekistan

Barents Group provided short-term technical assistance to the Government of Uzbekistan (GOU) in monetary reform. The team had four objectives. First, to assess the impact of actions being taken by GOU to stabilize the sum-coupon. Second, to propose a detailed implementation plan for the introduction of the sum currency along with monetary and fiscal reform measures to stabilize the sum-coupon and insure that the sum will be stable. Third, to develop a plan for the issuance of debt instruments and conduct a seminar on monetary policy.

Fourth, to develop a work plan on the training needs of government officials and staff in the areas of foreign exchange management, credit management operations, bank supervision, debt instrument issuance and management, and domestic and external debt management.

Financial Sector Regulatory Assistance - Government of Bosnia

Barents Group is providing two resident advisors to assist the Federation Banking Agency (FBA) in developing and implementing a full range of tools and techniques to enable the FBA to regulate and supervise all licensed banks

king institutions. A legal advisor also participates in the development of appropriate banking laws and regulations. A full range of supervisory responses are being developed to allow the FBA to supervise banks that are fundamentally sound, banks that require minimal FBA intervention, and banks that may require closure and liquidation. In addition, Barents is performing enhanced supervisory review of the two largest state-owned banks in Bosnia.

Prague Stock Exchange Reform Project

Barents Group is currently assisting Prague Stock Exchange (PSE) to develop and implement a strategic plan. The team consists of one long-term advisor and several short-term advisors. This plan will be based on a diagnosis of present performance, a review of regulations, an analysis of PSE management structure and technical resources, and the identification of risks facing PSE in its efforts to build an efficient market. The long-term resident advisor works and coordinates efforts closely with the Chairman and General Secretary of the Exchange. In addition to the long-term advisor, there are short-term advisors that assist PSE management in the development of specific components of the strategic plan. Short-term missions may focus on the following: promotion and use of disclosure to increase investor confidence and interest; promotion of fair and effective order execution; and the mechanics of price discovery and settlement systems.

Private Corporate Investment Feasibility Project - Southern Spain and UK

Carried out for a UK-based firm of international investors, Barents Group staff lead this project addressing the feasibility of new private investment in marina and hotel properties in southern Spain. It entailed financial and statistical analysis of the U.S. and European tourism market for the region. The project team first met with the investors and their local market survey team, defining the prospective product and target market for the project. They then surveyed the status and degree of success of competing resort properties in the region and prepared demand estimates and projections for the life of the prospective project. The result was a set of recommendations for the structuring and marketing of a marina and adjacent residential and commercial developments, as well as recommendations for financing the development.

Egypt Financial Sector Project

Barents Group conducted a study of Egyptian financial markets and proposed immediate actions to increase the flow of funds to the private sector, identify new financial instruments for the Egyptian financial market, and develop medium and long-term strategies for the Government of Egypt and USAID/Egypt to assist financial sector development in Egypt. The team consisted of five financial market experts with experience in economic reforms, financial markets, term lending, contract savings and social insurance systems, and corporate and financial legal issues.

The team focused on five key areas to increase the efficiency of the economy. First, the team recommended improvements concerning the clearing and settling arrangements of interbank transfers, foreign exchange transfers, Treasury-bills, and stock transactions. Second, the team st

udied medium and long-term credit instruments, asset markets, and the privatization process. Third, the team considered the important role of investment vehicles such as mutual funds. Fourth, the team investigated contract savings and pension funds as a source of capital. Fifth, the team looked at the legal and regulatory environment necessary to promote efficient markets.

Kenya Capital Markets Authority Evaluation

Barents Group evaluated the Capital Markets Authority component of the Structural Adjustment Assistance Program-Technical Assistance Project, funded by USAID. The project had four main purposes. First, to determine the impact of the project on the capital markets and look into its effects on the Kenyan economy. Second, to assist USAID/Kenya to determine the most useful way of extending further assistance to develop the capital markets Authority and whether the assistance so far provided can contribute to the private enterprise development objectives of USAID Kenya. Third, identify issues that impinge on or have influenced capital market growth and recommend how to improve capital market growth. Fourth, to assess how USAID assistance to stock market development may best be provided.

Technical Assistance on Macroeconomic Policy - Ministry of Finance of Swaziland

Barents Group helped design and implement new policies and systems at the Ministry of Finance, as well as to provide guidance to new research efforts for special studies at the Research Department of the Central Bank. Some areas of technical advice include: refinancing of certain hard-currency debt; designing policies that enable the government to achieve targeted levels of revenue; managing the Government's indebtedness, cash flow, and investments; and integrating the data collection and analysts functions of the Ministries of Finance and Economic planning.

Womens Access to Financial Market Services - The Impact of Economic Reform in Tanzania and Madagascar

Two Barents Group teams assessed the impact of economic reform on women in Tanzania and in Madagascar. Their studies isolated key financial market issues that might be investigated in greater depth in future sectoral assistance programs for low income developing countries throughout sub-Saharan Africa. The impetus for these case studies was a March 1994 World Bank workshop on Gender Issues and Economic Adjustment.

Overviews of economic conditions in Tanzania and Madagascar from their central banks, IMF and World Bank data were supplemented with interviews of financial market participants-- banks, government policy-makers, NGOs and women entrepreneurs in Dar es Salaam, Arusha and Mwanza in Tanzania, and in Antananarivo and Anserabe in Madagascar. Recommendations were based on congruence between the available data and interviewees responses from different strata in financial markets with particular emphasis on those characterizations evincing agreement from demanders and suppliers.

Income Accounts and Economic Forecasting Model - Territory of Guam

Barents Group completed a project with the Guam Finance Commission for constructing a set of historical income accounts for Guam and developing a special purpose econometric forecasting model which is linked to the Guam Tax Models. The Guam Income Accounts, the first set of accounts ever developed in Guam, tracks the historical quarterly growth of Personal Income, Gross Island Product, and each of their components. The second phase of the project used the historical income accounts to forecast key elements of Guam's economy. A user-friendly econometric forecasting model was constructed to forecast quarterly estimates of key Guam economic indicators. These indicators include Personal Income, Gross Island Product, employment and wages by sector, indirect business tax collections, and total visitor arrivals throughout the year 2000. Also, the Model has equations translating the economic variables into tax base variables that can be linked with and used as inputs into the microsimulation tax models.

Accelerated Development of the Economy of Kedah - Malaysia

This UNDP-sponsored project provided technical assistance and institutional development services to the Economic Planning Unit (EPU) of Kedah, the agency responsible for industrial planning and trade promotion in the northern region of Malaysia. Barents Group has provided a senior international trade specialist who is working with the resident UN technical advisor and consultants to develop a strategic action plan for the short-to-intermediate-term development of the region, concentrating on private sector investment and the industrial comparative advantages and complementarities Kedah State exhibits with respect to other states and provinces in the region.

This project was a follow-on to the ADB-sponsored Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) project, directed by the same Barents Group trade specialist during 1994. That project developed an integrated overall development plan for three adjacent subregions of these three countries, including recommendations for: (1) the promotion of industrial, agricultural, and tourism investment; (2) the development of transportation and communication infrastructure; (3) the provision of financing for these activities; and (4) the development of public and private sector institutions to support all IMT-GT activities. The Accelerated Development of Kedah's Economy project is intended to further all these goals within the strategic framework developed under the original project.

Concrete results of the project included a set of specific investment and export initiatives and recommendations for concomitant promotion of those initiatives on the part of the Kedah EPU. Barents Group identified means by which the EPU initiatives can best be carried out in cooperation with similar institutions from subregions within the IMT-GT area and in cooperation with a region-wide coordinating agency (the IMT-GT Secretariat). Finally, Barents Group provided an evaluation and set of recommendations for the development of the EPU itself, as well as for the region-wide agency.

Mid-Term Evaluation of the Capital Markets Development Project in Manila -

Philippines

Barents Group evaluated the implementation of USAID's Capital Markets Development Project. The team consisted of: a team leader, a capital markets specialist with considerable experience in Capital Market operations, oversight, regulation, and policy reform; an organizational expert; two financial analysts; and a local advisor. The team assessed the adequacy and effectiveness of securities market enhancement efforts including relationships with industry associations, other business associations, appropriate government agencies and the public at large.

U.S. and Mexico Free Trade Agreement

In 1991, Barents Group developed a multisectoral computable general equilibrium (CGE) model of both the U.S. and Mexican economies that were linked through bilateral sectoral trade flows. A detailed database was developed by collecting data for both the United States and Mexico and merging them into a consistent set of accounts for both countries. The combination of the CGE micro-economic simulation model and its accompanying database represents the circular flow of incomes and expenditures among firms, households, government and the rest of the world. The results from the micro-economic simulation model are used to analyze the impact of potential free-trade policy alternatives on the economies of Mexico and the United States.

Impact of the Proposed Mexico-U.S.-Canada Free Trade Agreement on the Puerto Rico Economy

The Government Development Bank of Puerto Rico contracted the services of Barents Group to study the impact of the proposed Mexico-U.S.-Canada free trade agreement on the economy of Puerto Rico. The study analyzed in detail the potential impacts on specific industries and sectors of Puerto Rico, using both a Computable General Equilibrium (CGE) model of the economy and a locational/competitiveness model of after-tax rates of return. Data inputs to these models was obtained through a combination of published data and survey responses. The study was created to assist the Government Development Bank in formulating policy that furthers the Islands development within the new global environment.

Evaluations of Macroeconomic Reform Programs

Barents staff members have led and taken part in evaluations of macroeconomic conditionality programs in seven Latin American and Caribbean countries (Costa Rica, the Dominican Republic, Guatemala, Honduras, Jamaica, Nicaragua, and Panama) as well as several Asian countries. These evaluations were funded by USAID, but generally covered the effects of World Bank and IMF conditionality as well, since these programs were coordinated in most cases. The teams addressed not only the extent to which host countries had complied with conditionality, but the economic and social effects of compliance as well. Whenever possible, the analysis included statistical modeling of the economic effects of specific elements of reform.

Evaluation

Evaluations of Multicountry Export and Investment Promotion Programs

These project

s were formal program evaluations of USAID-funded trade and investment promotion programs in Latin America and Asia. In each region, Barents Group staff studied three countries with USAID-supported promotion programs and one comparison country with its own indigenous program, carrying out surveys and statistical analyses designed to determine the measurable effects of specific elements of the programs. The conclusions rated various standard promotion activities by their rate of return and by their broader economic effects.

Technical Assistance

on Macroeconomic Policy for the Republic of Bosnia Herzegovina

Barents Group is

s currently assisting the Republic of Bosnia Herzegovinas reconstruction and transition to a market economy by providing macroeconomic assistance. The team is promoting the successful operation of USAID balance of payments assistance programs from the macroeconomic perspective and strengthening the economic/financial institutions through transfer of skills and expertise as it relates to balance of payment issues.

Medium-Term Policy Framework

Barents Group and KPMG Pea

t Marwick prepared several reports for the Minister of Finance to assist the newly elected government develop its 1996 budget address and its framework for medium-term (three to five years) economic policy. Working closely with MoF and other government officials, the Advisory Team investigated current tax structure and spending policies to develop short and medium term policy recommendations in several key economic and social areas, including fiscal policy, trade and investment promotion, energy, tourism, employment programs, training, and social transfers.

Specific recommendations, consistent with the governments initiatives and budget constraints, were designed as building blocks for a sustainable policy environment. Characteristics of such a policy environment include a disciplined public sector that lives within its means and if possible generates surpluses, thriving and competitive financial institutions and capital markets that can finance the investment needs of the public and private sectors at reasonable interest rates, and a tax policy that is stable and predictable and that supports private investment through a regime of broad tax bases and low tax rates.

Gas Pricing Analysis, Modeling and Negotiation Assistance

Barents Group worked

with the National Gas Company of Trinidad and Tobago Limited (NGC) on three projects: gas pricing analysis and negotiation assistance for a major supply contract, financial analysis of a proposed investment project, and building a customized software application for tracking gas contract performance, projecting future revenues, and analyzing alternative pricing structures. The software application is helping NGC to consolidate its gas-contract-related data into a centralized repository and to establish standardized procedures for projecting

revenues and evaluating alternative gas pricing strategies.

West Bank & Gaza Financial Sector

Barents Group is advising the Palestinian Authority by analyzing and evaluating a variety of financial sector policy initiatives including: (1) Securities Market Regulation, Monitoring and Surveillance; (2) Pension Reform; (3) Insurance Sector Reform; (4) Enactment of a Trust Law; and (5) Establishment of Uniform Accounting and Auditing Standards. The policy initiatives are designed to mobilize institutional capital for domestic investment and contribute to market transparency, efficiency, and investor confidence.

Selected Projects in Tax Policy and Administration

Tax Policy, Administration and Computerization, Government of Kazakhstan

Barents Group is assisting the Ministry of Finance of Kazakhstan by providing a full range of advice and assistance in establishing VAT, excise, corporate income, and personal income taxes. With several resident advisors and the use of numerous short-term consultants, the project team has assisted in the full range of activities necessary for the creation of a comprehensive, rational and administerable scheme of taxation for these countries.

Phase I of the project focused on the design of comprehensive tax reform, which was implemented in April 1995 with the enactment of a Comprehensive Tax Code, the first such reform in the Republics of the former Soviet Union. The project played a lead role not only in the design and drafting of the new code, but also through the critical process of debate and deliberations within the government. The team has also assisted in other areas, including external debt management, intergovernmental fiscal relations, computer needs assessment and forms design for the new tax code. Barents Group is currently assisting the Ministry of Finance in the preparations for the implementation of the new tax system.

Resident tax administration advisors are helping to create operational procedures and operating systems to cope with the taxation workload. In the areas of collection and examination (audit), our advisors are key to the development of these procedures and the structuring of a comprehensive scheme for training the full range of personnel in all aspects of the work including managerial training and the coaching of strategic planning activities, to occupational training of collection and audit personnel. A public information and education program to support the tax enforcement programs is also included in the projects work.

Tax Policy, Administration and Computerization, Government of Kyrgyzstan

Barents Group is assisting the Ministry of Finance of Kyrgyzstan in its efforts to reform its entire tax system, both in structure and operation, including VAT, excise, corporate income, and personal income taxes. The Project includes several

resident advisors numerous short-term consultants, focusing on tax policy, tax analysis, tax administration, and computerization.

Project team economists are

working directly with Ministry counterparts in fashioning new policies, laws and decrees on taxation. Barents has created and trained a fiscal and macroeconomic analysis unit in the Ministry of Finance and Economy. Barents Group is also assisting the Kyrgyz government in the design, development, procurement and installation of computer systems tailored to the tax administration schemes being developed by the revenue bodies and their staffs, as coached by our advisors.

The systems being developed will handle the full range of tax enforcement and revenue accounting activities, utilizing the most practical and modern facilities and equipment possible.

Resident tax administration advisors are helping to

create operational procedures and operating systems to cope with the taxation workload. In the areas of collection and examination (audit), Barents Group advisors are key to the development of these procedures and the structuring of a comprehensive scheme for training the full range of personnel in all aspects of the work including managerial training and the coaching of strategic planning activities, to occupational training of collection and audit personnel. A public information and education program to support the tax enforcement programs is also included in the projects work.

Fiscal Analysis and Administration - Ministry of Finance of Moldova

Barents Group is currently engaged in a comprehensive

program of technical support to the Ministry of Finance and the State Tax Inspectorate to improve the functions of fiscal analysis and tax administration in Moldova. The project consists of four resident advisors and a number of short term consultancies in various policy, administrative and analytical specialties.

Barents Groups work encompasses the following tasks: (1) providing technical advice in tax policy; (2) supporting the Ministry of Finance in the development of a fiscal analysis unit (FAU) responsible for revenue and expenditure forecasting and the conduct of policy analysis; (3) developing analytical models to assist the FAU in carrying out revenue and expenditure forecasting, fiscal impact analysis, and related analyses; and (4) assisting the State Fiscal Inspection Directorate in modernizing and improving tax administration.

Tax Reform Program, Russian Federation

Barents Group is currently working with the Economic

Reform Commission, the Ministry of Finance, the Tax Reform Commission and the State Tax Service, in the design and execution of a comprehensive tax reform program in the Russian Federation. In addition to assisting in the design of the overall program, Barents is providing assistance in specific areas of tax policy, tax analysis and revenue forecasting, and tax administration.

Barents Group

has been involved in analyzing a wide variety of tax policy issues and providing

iding recommendations for changes in these policies. Recently, the policy activity has focus around the review and revision of a comprehensive Tax Code that consolidated existing laws while at the same time introducing reforms into the tax system. Our team provided detailed comments on each section of the code, with special attention being paid to the administrative aspects. We have also been assisting the Parliament in its analysis of various tax issues, including the taxation of small business and the role of tax incentives.

The tax policy work has been supported by the development of databases and models to analyze the revenue effect of specific proposals as well as to the Ministry of Finance revenue forecasting and tax analysis capability. This work has included assisting the State Tax Service in developing a Statistics of Income (SOI) function to improve their capability to monitor the performance of the system.

To date, our work in the area of tax administration has focused on ensuring that the appropriate administrative provisions are included in the new tax code, dealing with transition issues related to various reforms of both the VAT and the enterprise profits tax, and outlining the key steps required to move toward a system of selective audits.

Fiscal Analysis Unit - Ministry of Finance of Ukraine

Barents Group is working closely with government counterparts in the Central Bank, the Ministry of Finance and the Ministry of Economy to establish a Fiscal Analysis Unit, under the sponsorship of USAID. This Unit will provide on-going technical analyses and support to the Ministry of Finance in tax policy and macroeconomic issues. The staff has analyzed numerous fiscal and economic issues, provided extensive training in Western economics to counterparts, and established detailed socio-economic databases. Barents Group has also worked closely with the Ministry of Economics in analyzing the informal economy in Ukraine. Barents Group customized economic forecasting models, using FoxPro and the Windows environment, and is implementing these models in Russian.

Provision of Technical Assistance in Tax Policy and Administration to the Government of Uzbekistan

Barents Group is assisting the Ministry of Finance and the State Tax Service of the Government of Uzbekistan in improving its tax policy, tax administration and fiscal analysis capabilities. The team of five resident advisors consists of a tax policy specialist, a fiscal analysis advisor, an income tax administration advisor, an indirect tax administration advisor, and a computerization specialist. The main project tasks include: assisting in policy reform; establishing a policy analysis unit in the Ministry of Finance; developing fiscal and economic databases and analytical models; developing a computerized tax administration systems; and modernizing and improving the tax and customs administration functions.

Tax Policy Training, Government of Hungary

Barents Group presented

a series of seminars in the area of tax policy modeling to officials of the Ministry of Finance, the Tax Department and the Central Statistics Office in Hungary. These seminars covered a review of Hungary's current capabilities in economic and policy modeling, and presented recent developments in economic modeling in the OECD. Special seminars were conducted on the advantages of various approaches and the statistical confidence that could be associated with each approach.

Tax Administration, Ministry of Finance of Latvia

Barents Group has joined

a team led by KPMG-Cologne to assist the Ministry of Finance of Latvia in drafting new tax laws, including legislation for customs, VAT, excise duties, profits, and personal income. The team will then assist in implementing these laws, and will train national and regional officials of the State Revenue Service of the Ministry of Finance in audit and control, management, strategic planning, systems development, excise duties, and communications.

Computerization Spe

cifications - Ministry of Finance of Poland

Barents Group, under the sponsorship

of the United Nations Development Programme, assisted the Polish Government in the analysis of proposed hardware vendors and specifications for computerization of an expanded tax processing system. This involved a detailed analysis of the hardware and software specifications, the evaluation criteria, and the actual proposals submitted. The evaluation specifically examined the hardware and software performance statistics, compatibility with other Ministry computer systems, capability for expansion, operating and maintenance costs, technical support, and training.

Public Finance Administration Project - Government of Egypt

Barents Group is currently conducting a major Public Finance Administration Project in Egypt, including a comprehensive analysis of tax policy and administration in Egypt. The effort includes a systematic analysis of the entire Egyptian tax system, including income taxes, domestic indirect taxes and taxes on international trade. To support this analysis, Barents Group developed a set of analytical tax models to examine Egypt's entire system of indirect taxes, including import duties, the recently introduced General Sales Tax, the system of scheduler income taxes (centered around the wage tax), and the set of income taxes levied on businesses. These models, all developed with user-friendly menu systems, were delivered and installed in a newly created policy analysis unit within the Ministry of Finance. Barents Group also implemented a comprehensive training program for the staff of this unit.

In addition to the work in the area

of tax policy, the Project places a strong emphasis on improving the system of tax administration, including a major effort in computerizing the administration of the income taxes and the indirect taxes. The importance of this work is evidenced by the presence on the Project team of six full-time Resident Advisors in tax administration and computerization as well as numerous medium-term and short-term advisors specializing in administrative issues.

The Project has played an important role in supporting the Ministry's efforts in designing and implementing the new broad-based manufacturing level value-added tax, referred to as the General Sales Tax. The Project not only provided support in analyzing and quantifying a myriad of policy issues, but also took the lead in preparing for the administration of the new tax, most notably in the design, development, and implementation of the General Sales Tax computer system.

Tax Reform Analysis - The Gambia

Barents Group conducted an extensive analysis of the Gambian tax system for the Ministry of Finance, in support of the development of a comprehensive tax reform program. The project included an analysis of the structure of individual and corporate income taxes, the system of withholding and estimated payments, expansion of the sales tax base, unification of the tariff structure, and the revenue effects of each of these measures.

Fiscal Modernization Programme - Government of Kenya

Barents Group conducted a Tax Modernization Program for Kenya incorporating the following key components: (1) technical, expert tax policy advice; (2) the construction and use of analytical tax models and databases for the individual income tax, the corporate income tax, and the indirect tax system; (3) the development and training of a Tax Policy Unit within the Ministry of Finance; (4) a full examination of income tax administration in Kenya with specific attention to improvements in administrative support systems, returns filing and processing, and taxpayer compliance programs; (5) the design and implementation of computer systems for tax policy and administration with specific attention to a taxpayer identification system, a master tax file system, the collections ledger system, and the P.A.Y.E. system; and (6) an evaluation, redesign, and implementation of training programs for tax policy, tax administration, and computerization.

The Project, funded by the World Bank, UNDP, USAID and the African Development Bank, included three long-term Resident Advisors in tax policy, tax administration, and computerization, and a number of short-term advisors in the areas of tax policy, administration and training. The project works closely with the Ministry of Finance, the Income Tax Department, the Value-Added Tax Department and the Inland Revenue Department in all aspects of its work.

Tax Administration System Modernization Study

Barents Group made among the first studies and recommendations for modernization of Malawi's income tax administration, and pioneered the introduction of computerization into the tax administration of Malawi. Initial studies conducted by Barents Group led to many administrative improvements, the subsequent development of taxpayer data bases employing up to date taxpayer identification numbering technology, and modern computer systems. Extensive computer training of tax administration personnel was also accomplished.

Barents Group staff members were among those personnel making the earliest studies and recommendations for improvement and modernization of the Malawi Income Tax Department. The Groups Director (Tax Administration), Mr. Arnold Gordon, led a team of income tax advisors on a mission to study the existing system and recommend improvements. Many of those recommendations have been adopted and integrated into departmental operations.

Members of the Barents Group staff provided an initial study of the capabilities of the government computer staff for implementing computerized tax administration systems in early 1987 and led the implementation of the Taxpayer Identification Number (TPIN) via a computerized system for use in both income tax and sales tax. Subsequently, members of our staff were responsible for the development and implementation of the systems. An important element to the successful computerization within the Ministry of Finance was the high attention paid to recruitment and training of staff. This training consisted of short-term courses and workshops organized and conducted in-country, as well as more extensive training offered to a number of Government computer professionals through University and graduate level studies in computer science at Universities in the U.S. These studies were organized and directly supervised by Barents Groups Managing Director of International Computerization.

Tanzania Indirect Taxation Reform Study

Barents Group conducted an Indirect Taxation Reform Study for the Presidential Commission of Enquiry into Public Revenues and Taxation in Tanzania. This study included a review and evaluation of the structure and operation of all indirect taxes including customs duties, sales tax, excise tax, and other miscellaneous indirect taxes. A primary focus of the study includes recommendations for the development and introduction of a value-added tax at the manufacturing level. To support the analysis of revenue and distributional effects of alternative indirect tax policies, this study included the development of a detailed indirect tax model. This model database was developed using detailed tax and economic data and operates on a microcomputer. The model is made user-friendly through the use of an interactive menu system, that allows analysts to easily specify and simulate alternative tax policies.

Tax Administration - Government
of China

Barents Group is assisting the State Administration for Taxation (SAT) in the design of a national information system in support of the current comprehensive tax administration reform. The Government of China aims to develop an efficient and fair tax assessment and collection system. The key task of this World Bank-sponsored project is to assist the SAT in designing a computerized system and in procuring the necessary hardware and software. The design will be completed in sufficient detail to enable implementation of the system by the SAT, and will include data, application and technical architecture and specifications. The system design will be consistent with new tax administration principles, procedures and organization arrangements developed by the SAT. Technical assistance provided by Barents Group in preparing the functional design of the computerized system includes: identifying key components of a computerized tax system; identifying the issues and alternatives for the design of each component.

nent; selecting and applying CASE tools and relational database management systems defining and providing guidelines for adherence to open system, portability, and software design standards; developing hardware, software, and telecommunications specifications; preparing tender documents for the procurement of hardware and software; and training and educating SAT Project Team members in development methodologies, computerizing tax systems, and procuring system components.

Microsimulation Tax Models - Territory of Guam

Barents Group completed a contract with the Guam Tax Code Commission to study the current tax system of the Territory to determine the effects of various proposed tax policy alternatives, and to develop proposed legislation incorporating the recommendations the Commission deemed most desirable for the people of Guam. This project was of particular importance to the commission since, by design, it coincided with discussions between Guam, the U.S. Treasury, and the U.S. Congress on matters relating to the future political status of Guam. The scope of work included, but was not limited to, the construction of a micro database and the development of three user-friendly tax structure microsimulation models -- viz. the individual income tax, the corporate income tax, and indirect taxes (sales, gross receipts, and various excise taxes). Barents

Group installed all three models on Guam computers and provided training on the use of these models to Guam officials.

Delhi Sales Tax Reform, Government of India

Barents Group is currently providing assistance to the Delhi Sales Tax Department in the design and implementation of a state-level value-added tax. The project involves developing the recommendations for the structure and operation of a new VAT, including defining the scope and coverage, proposed rates, treatment of inter-state transactions, improved administrative organization and procedures and developing the requirements specification for computerization of the tax processing system.

Individual Income Tax Microsimulation Model

Barents Group was engaged by the Department of Finance of the Commonwealth of the Northern Mariana Islands to develop and install the Individual Income Tax Microsimulation Model. The Model incorporates all of the provisions of CNMI income tax laws, including wage and salary rates and brackets, the Business Gross Revenue tax credit, and the Rebate Computation. The Model provides estimates of revenue and distributional impacts of personal income tax options.

Multinational Business Tax Study, New Zealand

In 1988 Barents Group conducted a major consulting engagement for a consortium of multinational corporations in New Zealand. The consortium was seeking assistance from internationally recognized tax specialists to formulate a response to the Gover

nment's far-reaching tax proposals regarding the taxation of foreign-source income. The consulting engagement consisted of the analysis and evaluation of these proposals, the development of alternative tax measures that would be consistent with the Government's needs but would be less onerous to New Zealand multinational businesses. The analysis was also used to support alternative tax rules that would effectively deal with cases of abuse of existing New Zealand law, particularly the use of offshore tax havens to defer current tax liability, without adversely affecting legitimate international business enterprises. Presentations were made to the New Zealand Treasury Department and to Government officials. Based in part on this work, the Government modified its original proposals to meet the concerns of the business community.

Indirect Tax Administration - Government of Pakistan

Barents Group developed a detailed plan for reforming the system of indirect taxes and implementing a broad-based value-added tax for the Government of Pakistan. The World Bank-funded project included a complete review of the current system of indirect taxation and a detailed analysis of tax policy and tax administration issues involving the implementation of a broad-based consumption tax. The project resulted in a set of specific recommendations regarding the policy decisions and administrative actions that should take place to successfully implement a value-added tax in Pakistan. The implementation plan included a detailed outline of the required legislation, preparation of recommended forms and manuals, and guidelines for the computerization of indirect tax administration. A detailed indirect tax simulation model was developed to analyze the revenue effects of excise taxes, sales taxes, customs duties, and the proposed value-added tax.

Integrated Tax System - Ministry of Finance of Thailand

Barents Group was contracted by IBM Thailand to assist in the revised strategy to define the requirements for the Integrated Tax System for Thailand. Several Barents specialists in tax administration provided early recommendations in the project. Barents staff were responsible for the requirements analysis and user requirements definition for the value-added tax component of the Thai Internal Revenue tax processing system. The work included all aspects of the requirement specification, including outline of the specific function and operations the system would perform; design of screen layouts; design of over 40 standard reports; specification of procedures for data validation; estimation of the number of each type of transaction; specification of the database; and development of system performance requirements. Barents Group also introduced the concept of prototyping as an effective means of presenting requirements in the Thai language to officials in the Revenue Department.

Tax System Modernization Project - Government of El Salvador

Barents Group completed a long-term Tax Modernization Project in El Salvador. We first analyzed the activities in the Salvadoran Ministry of Finance and identified the areas in need of technical assistance. Our analysis presented detailed recommendations in direct and indirect tax policy, tax administration, customs administration, budget, treas

ury, and computerization. Our work defined the scope of effort needed for a long-term technical assistance project for the modernization of all Ministry areas, including the terms of reference for resident and short-term technical experts, a detailed work plan for the first year of the project, and a description of activities in each area.

Following the evaluation and recommendations, particularly concerning the necessary steps for a transition from a stamp tax to a value-added tax (VAT), Barents proceeded with the implementation efforts. A detailed schedule of activities for the VAT implementation was carried out, and the VAT became effective in September 1992. One of the most significant activities involved the development of the computer systems for the administration of the new VAT.

In addition, Barents provided economic advisory services to the President's Economic Committee. We assisted the government in the development of its institutional capacity for fiscal analysis. As part of this assistance, we developed six microsimulation and fiscal analysis models, which will become permanent tools for the Ministry of Finance.

Fiscal Policy Administration Reform, Government of Guatemala

Barents, along with Georgia State University, recently completed a comprehensive Fiscal Administration Project in Guatemala and helped the government to design and implement a tax modernization program, which became effective in 1992. The project included all areas of tax policy, tax administration, and budgeting and focused on:

- strengthening the Ministry of Finance fiscal planning process,
- improving the tax structure,
- establishing a tax analysis capability within the Ministry of Finance,
- analyzing current and proposed changes in tax and trade policy,
- improving and modernizing tax and customs administration, and
- improving the overall budgeting process, including its development, presentation, and monitoring.

Our team developed a series of specialized computer models to assist in the analysis of the fiscal system and to improve the Ministry's ability to undertake such analysis in the future. The set of analytic models developed for the Ministry of Finance included: an individual income tax model; a business income tax model; an indirect tax model, including import duties, the value-added tax, and excise taxes; a receipts forecasting and monitoring model; and a budget outlay model. These models, which formed an integral part of the project's policy work, were transferred to the Ministry of Finance along with extensive training not only in how to use the models but in all areas of tax policy analysis. Barents also aided the Ministry of Finance in establishing a new Fiscal Analysis Unit to support the Ministry in its future analyses.

We placed a heavy emphasis on improving the operational as well as the structural aspects of the fiscal system. Therefore, our eight resident advisors included tax policy, tax administration, customs administration, computerization, and budgeting specialists.

Tax Administration Reform - Government of Jamaica

Barents is currently assisting the Government of Jamaica in the modernization of its tax administration system. As part of this World Bank-sponsored project, Barents analyzed and reviewed the government's current tax administration system. Our team, comprised of international advisors and local specialists, worked with government counterparts on the five major components of potential reforms identified by the World Bank Staff Appraisal Report. These five components were: broadening the tax base; strengthening organization and management; improving the control of tax evasion; improving tax collections; and facilitating voluntary compliance. Our final report was presented in three separate volumes.

Barents also analyzed and reviewed the government's current computer system. We examined the Argentine computerized tax system for the Government of Jamaica, placing special emphasis on the taxpayer accounting department. This comprehensive review included overall system design, returns and payment processing, delinquency management, taxpayer accounting, system security, collections, case tracking, audit selection, and management information systems. We prepared a comprehensive report on various options for computerization of the Jamaican tax system, including the potential use of the Argentine system. These options were presented to the Jamaican Government for their consideration.

In continuation of the work outlined above, Barents recently began further work with the Government of Jamaica in strengthening the organization and management of Jamaica's tax administration system. This new work focuses on the design and implementation of reforms in structure and organization, human resource management, financial management, operational management, and physical resource management.

Tax Reform Systems - Commonwealth of Puerto Rico

Barents provided support to the Secretary of the Treasury of the Commonwealth of Puerto Rico over a three-year period to design and implement a major tax reform program. This program covered all aspects of policy and administration for all direct and indirect taxes. Microsimulation models and databases were developed for the corporate and individual income taxes and excise taxes. These models were used to analyze the revenue and distributional effects of various tax policy alternatives and to develop recommendations for changing the existing tax system.

Barents also conducted an in-depth review of all existing administrative procedures and capabilities within the Revenue Bureau of the Treasury Department, and prepared recommendations for change in conjunction with the proposed tax policy reforms. Our efforts included full technical support for the implementation activities of the

he tax reform program, including providing oversight, training, designing and installing computer systems, designing tax forms, improving facilities management, and developing staffing plans and operating procedures. We installed the tax models on the computer system of the Government of Puerto Rico and successfully trained staff members on the use of these models. Barents is currently working with the Department of the Treasury to update the models and databases previously installed on the government's computers. This update will account for legislation enacted since the first project and will make use of more recent, post-tax reform data. In addition, the models and databases will be transferred from the Department's main frame computers to microcomputers.

Fiscal Policy Reform and Value-Added Tax Implementation Project

Barents designed a comprehensive tax reform program for the Government of Trinidad and Tobago in 1988. Our effort included four principal components: (1) a detailed review of the existing tax structure and administrative system; (2) development of a sophisticated computerized tax administration and returns processing system; (3) development of specific recommendations for tax policy and tax administration reform, including a detailed implementation plan; and (4) comprehensive assistance to the Ministry of Finance in implementing this new tax system.

Our overall effort resulted in the adoption of major reforms to the individual and corporate income taxes, effective in January 1989, and to the introduction of a value-added tax in January 1990. Barents directed the value-added tax implementation effort, which included supporting the drafting the VAT legislation and regulations, designing staffing and administrative procedures, training personnel in all functions, preparing a taxpayer registration system, and designing and developing the necessary computer hardware and software.

Tax and Fiscal Analysis for State Governments in the United States

Barents Group has designed, developed and installed multi-tax simulation model systems including individual income, sales and excise, business and property tax micro-simulation models to several U.S. states. These models facilitate the analysis of various tax policy alternatives for state and local governments, independent associations and state legislative committees. Barents has also developed and installed models to assess the revenue and distributional impacts of proposed tax reforms; conducted tax analysis and fiscal studies to assist state legislators identify the long-term implications of structural deficits; provided support for various state tax reform efforts; and improved tax analysis capability through training and use of micro-simulation models. The states in which Barents has worked include:

Alabama Maine Ohio California
Maryland Oklahoma Connecticut Michigan Pennsylvania Delaware Montana Rhode Island
City and County of Honolulu Nevada South Carolina Hawaii New Jersey Texas Iowa New York
Virginia Kentucky North Carolina
Impact of U.S. Tax Reform, United States Virgin Islands

Barents Group was engaged by the Treasury Department of the Virgin I

slands to analyze the impact of the U.S. tax reform program on the Islands' income tax revenues. To perform the analysis, we developed microsimulation models and databases for the individual income tax and the corporate income tax. Since tax return information was not computerized, databases were developed based on a stratified random sample of actual tax returns and other economic and demographic information for individuals, as well as for all business operations in the Virgin Islands.

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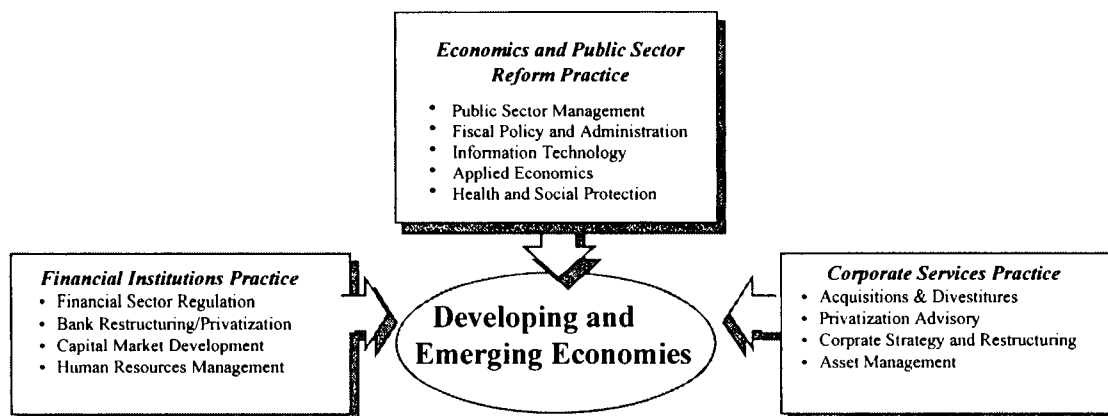
I. OVERVIEW

Barents Group, LLC is a widely recognized leader in providing financial, economic, and fiscal advisory services to emerging markets and developing countries throughout the world. Barents has successfully undertaken assignments in the areas of budgeting and financial management, fiscal policy and administration, and public sector computerization in countries of the Middle East such as Egypt, Lebanon, and Pakistan as well as Moldova, Russia, Ukraine, Latvia, Bulgaria, Bosnia, Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, Uzbekistan, Tajikistan, as well as in China, Thailand, Philippines, India, Kenya, Tanzania, Gambia, South Africa, Guatemala, El Salvador, Honduras, Argentina, Jamaica, Barbados, Trinidad and Tobago, Guam, Puerto Rico and over half of the states in the United States.

Barents Group is a wholly owned subsidiary of KPMG, the largest and most diversified professional services firm in the world. Founded in 1897, KPMG is the global leader in providing services to government and financial sector clients. Today it is a multi-national partnership with more than 837 offices in 134 countries. It has more than 6,000 partners and employs a staff of more than 76,000 professionals worldwide. KPMG serves more than 40,000 clients in virtually all sectors of industry and government.

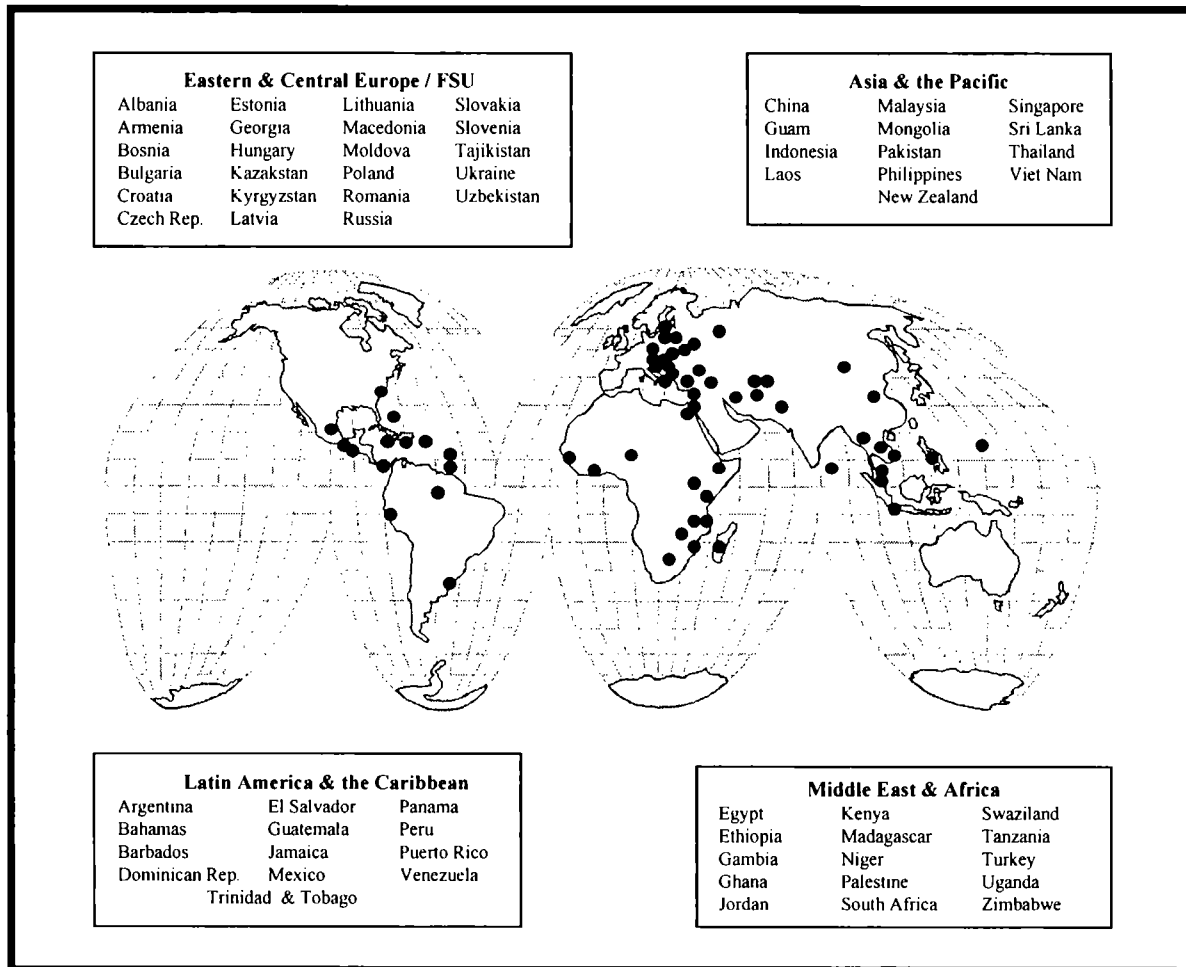
Barents Group is a specialized unit of KPMG dedicated to providing economic analysis and policy advice for international donor institutions such as the World Bank, the United Nations, the European Union, the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank and the Inter-American Development Bank; and for national donor agencies such as the U.S. Agency for International Development.

Through its three main business practices, Barents Group serves both government and commercial clients in a broad, interrelated range of activities. Each of these practices operates as a center of experience, talent and intellectual capital. Barents Group's clients benefit not only from the specific expertise of each practice, but from our ability to coordinate our services across practices to craft creative solutions.



The breadth and depth of Barents Group's experience, the skill of our professional staff, and our overall commitment to providing quality services ensure that client needs are met in a timely and complete manner. As a truly international consulting firm, Barents Group is experienced in mobilizing skills to address divergent topics in multi-disciplinary projects. We have developed a wide network of contacts to staff technical assistance projects, including in-house professionals, independent consultants and consortium firms.

GLOBAL EXPERIENCE OF BARENTS GROUP



II. ECONOMICS AND PUBLIC SECTOR REFORM PRACTICE

The Economics and Public Sector Reform Practice of Barents Group is a leading provider of economic and financial advisory services to governments around the world. Barents Group provides governments with the sophisticated tools necessary to enhance their decision-making skills and improve their fiscal management systems. We have brought together a group of international specialists to establish a major center of economic, fiscal and financial policy, administration, and computerization expertise, to respond to the specialized needs of ministries of finance and economy, treasury departments, revenue departments, central banks, financial institutions and others around the world.

Our approach to providing these services is highly focused and results-oriented. Indeed the key test of success is not just analysis of the issues or experience in working in the area, but rather the successful design and implementation of modern financial systems and fiscal reform programs around the world. Most of our international projects involve providing teams of technical advisors to develop fiscal and economic reform programs that have been approved by both executive and legislative branches of governments, and assisting central and local governments in implementing the policy and administrative reforms. An important component of our efforts dealing with tax administration, budgeting and financial management has been the design, development and installation of computerized systems for tax administration and financial management.

PUBLIC SECTOR MANAGEMENT

Barents Group has provided professional services in improving public sector management to more than a dozen foreign governments and numerous local governments. We have successfully reformed budgeting and financial management systems in many countries, including projects focusing on accounting procedures and systems, public expenditure management and treasury operations, external debt management, intergovernmental fiscal relations, and personnel and payroll management.

Our approach is to modernize budgeting and financial management procedures and information flows so that governments have the information necessary to manage their financial resources more proactively. Our success in these reforms combines the functional design of accounting, budgeting and treasury procedures with systems analysis and programming. Barents Group's functional expertise includes reviewing administrative procedures for budget formulation, execution and control; establishing budget classifications and charts of accounts; and specifying data and information flows among units within the Ministry of Finance, among ministries and among levels of government. We have designed, developed and installed computerized systems for revenue collection, budget planning and control, treasury operations and cash management, and integrated financial management. We have also developed models and trained government staff on revenue and expenditure forecasting and cash and debt management.

FISCAL POLICY AND ADMINISTRATION

Barents Group is the established leader in providing technical assistance in tax policy, administration, and computerization. No other group possesses the breadth of successful worldwide experience represented by Barents Group. We have conducted more than 22 tax projects world-wide, in which we have successfully designed and implemented comprehensive reforms of value-added taxes (VAT), other indirect taxes, individual and corporate income taxes, and other revenue sources in countries throughout the republics of the former Soviet Union, Asia, Latin America and the Caribbean, and

Africa. Our work extends from the quantitative analysis of the fiscal and economic impacts of changes in tax law, to assistance in drafting legislation and regulations, to designing organizational structures to modernize tax administration, to developing tax registration and collection systems, and to designing and implementing new adp systems for revenue administrations.

INFORMATION TECHNOLOGY (PUBLIC SECTOR COMPUTERIZATION)

The Information Technology Practice of Barents Group is a leading provider of technology assistance services to government and commercial organizations worldwide. We assist our clients in planning, developing, and implementing vital information technology projects in government budgeting and financial management, tax administration, and economic simulation models. Our achievements, both in emerging economies and in developed countries, include building or identifying specific systems development methodologies and software tools for use in strategy formulation, requirements definition, systems design, application prototyping, integration, implementation, documentation, and training. We also provide services in large-scale systems procurement, EDP resource and organizational planning, quality assurance, and systems testing.

Our extensive experience in implementing large-scale, integrated systems projects, and in providing advisory services, establishes a solid foundation for reforming and modernizing a government's information technology infrastructure. Our projects range from assisting clients in selecting appropriate packaged solutions to developing large volume, transaction-intensive systems in most areas of public-sector data processing and management. Barents Group strongly advocates open-system computer architectures and rapid prototyping methodologies for systems development, using computer-assisted software engineering (CASE) and fourth generation language tools. Our approach reflects many years of institutional experience in the design and implementation of complex financial information systems. We ensure that our recommendations provide our clients with straightforward and cost-effective solutions that utilize proven advanced technologies.

APPLIED ECONOMICS (MACROECONOMIC POLICY AND ANALYSIS)

Barents Group is a premier provider of macroeconomic policy and analysis services. The firm's in-house capabilities and project qualifications cover an extensive range, spanning monetary and fiscal policy, balance of payments and interest rates, trade and investment advisory, and forecasting and other econometric techniques.

Barents is particularly renowned in the provision of fiscal and monetary policy advisory services. The firm has assisted numerous government ministries and central banks to improve data collection and better manage existing data, and has trained senior members of government in all aspects of macroeconomic analysis, helping them to become better analysts, forecasters and policy makers. Barents advisors are also routinely called upon to provide direct input into monetary and fiscal policy, and often participate in cabinet-level working groups.

Barents has also accumulated vast experience in other areas of macroeconomic analysis and policy advice. Barents advisors have generated Computable General Equilibrium (CGE) models, creating replica economies with numerous industrial sectors to replicate the impact of various policy decisions in numerous countries throughout the world. Advisors have likewise forecast indicators such as interest rates and balance of payments statistics, and are increasingly invited to advise governments on trade and investment policy.

HEALTH AND SOCIAL PROTECTION

Barents Group's Health Economics Practice is an established leader in providing research and operational assistance for governments, industry and professional groups, private foundations, and businesses. The Practice offers its diverse client base the experience, expertise, and tools to meet the challenges of the evolving health market. A key to Barents Group's professional services is knowledge of the interaction between the public and private sectors in health care delivery and financing.

The Health Economics Practice focuses on government health care reform strategies, changes in the health care market (particularly managed care health systems), hospital management, economic analyses, health data systems, and health policy research. For its diverse client base, Barents provides technical assistance and support, economic analysis, design of pilot projects and their implementation and evaluation, and cost estimating and modeling. A unique feature of our major projects is the design and use of health policy modeling systems that combine simulation models to estimate the economic effects of health sector changes on populations, businesses, and government spending and revenue.

In the area of social protection, Barents staff and associated specialists have extensive experience in development, analysis, and implementation of social protection systems, focusing on social security, pensions, and unemployment compensation. Our staff and advisors are internationally recognized for their expertise in social protection systems in developed countries and have applied their experience to assist senior policymakers in emerging market and transition governments. A unique feature of Barents Group is its ability and experience in all phases of social protection reform from policy development through implementation. Barents applies sophisticated policy analysis tools to ensure adequate understanding of the potential impacts of alternative policies on families, individuals, the economy, and the public budget. In its many public sector projects around the world, Barents has demonstrated its understanding of the process of policy implementation, and brings management experience and practical solutions to complex problems.