RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 9-FEB-1999 10:34:47.00

SUBJECT: Re: Outline for Event

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

TEXT:
My understanding is that they like some of the details of a hill version of the SMART proposal better than ours (hill version known as SAFE), but are generally supportive and glad to have us embrace the idea as it increases chance of passage. Obviously, like the tax credit. The danger is not that they won't be supportive, only that they will want more. There are other proposals out there to lift nondiscrimination restrictions on plans that require that highly compensated employees don't get too great a proportion of the benefits. The PBGC staff asked the head of a group that represents small businesses in pension issues (American Society of Pension Actuaries) but they would not be a validator. I'll ask for more help to find someone who would do so.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Healy.Monica@pbgc.gov (Healy Monica) (Healy.Monica@pbgc.gov (Healy Monica) [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 16:53:19.00

SUBJECT: Re: Gail Cousins remarks

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

TO: Pieter J. Boelhouwer@OVP (Pieter J. Boelhouwer@OVP [UNKNOWN])
READ:UNKNOWN

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

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

TEXT:
looks fine -- a couple of minor changes:

-- in the fifth paragraph, first sentence I would drop "savings" because
it's an employer provided pension she got.

-- Also, there is a typo in the third line of that same paragraph --
"get" should be "got".

From: Sarah_Rosen
To: Pieter_J._Boelhouwer%OVP
Cc: Healy Monica; mark.iwry; kevin.maloney
Subject: Re: Gail Cousins remarks
Date: Wednesday, February 10, 1999 4:03PM

fine by me but mark please review and make sure that the situation here she
describes would be helped by the portability proposals we adance. thanks./

------ Message Header Follows ------
Received: from gatekeeper.eop.gov by mail.pbgc.gov
(PostalUnion/SMTP(tm) v2.2 (Build 22005) for Windows NT(tm))
id AA-1999Feb10.160500.1484.48765; Wed, 10 Feb 1999 16:05:01 -0500
Received: from lngate3.eop.gov by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM)
id AA06356; Wed, 10 Feb 1999 16:04:35 -0500
Received: by lngate3.eop.gov(Lotus SMTP MTA SMTP v4.6 (462.2 9-3-1997)) id
85256714.0073C904 ; Wed, 10 Feb 1999 16:04:41 -0500
X-Lotus-Fromdomain: EOP
From: Sarah_Rosen@opd.eop.gov
To: Pieter_J._Boelhouwer%OVP@oa.eop.gov
Cc: healy.monica@pbgc.gov, mark.iwry@treas.sprint.gov,

kevin.maloney@dol.gov
Message-Id: <85256714.0073AD55.00@lngate3.eop.gov>
Date: Wed, 10 Feb 1999 16:03:58 -0500
Subject: Re: Gail Cousins remarks
Mime-Version: 1.0
Content-Type: text/plain; charset=us-ascii

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 21:21:53.00

SUBJECT: 8:00 am

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

TEXT:
Pensions: VP event today. Leaked to Wall Street Journal, USA Today, and Boston Globe. Interest was mild because not too much was new. Pomeroy staff said he is pleased and will say supportive things tomorrow. He plans to reintroduce his bill tomorrow and issue a press release in hopes of getting in a few stories. OVP referred reporters to him as validator. (Privately, Pomeroy is disappointed that we did not go further -- embracing some of the proposals that David Strauss (PBGC) is promoting to make it easier to provide more benefits to higher income workers in order to interest them in starting or maintaining DB plans. NEC Deputies to hear a debate on these issues, when PBGC, Labor and Treasury complete background papers and Sally is available. Sarah told Pomeroy staff that these issues are still under consideration within administration.)

Financial Modernization: Congress Daily's lead story: "LaFalce Banking Proposal May Siphon Some GOP Support." Despite vigorous efforts by Chairman Leach to prevent republicans from supporting the Lafalce bill, Rep. Baker endoresed it and Rep. Roukema had warm things to say, despite co-sponsoring H.R. 10 with Leach. Today (Thursday) Greenspan testifies at a House Banking Committee hearing on Fin Mod; Rubin testifies Friday.

Financial Institution Regulatory Relief: This hodge podge of technical banking issues is being marked up by the Senate Banking Committee today (Thursday). Treasury is sending a letter (nothing new) expresssing concern with various provisions -- first among them is paying interest on so-called "sterile" reserves at the Federal Reserve. Budget cost is $800 million.

Y2K Liability Reform: Democrats are beginning to indicate support for liability reform legislation. Dodd did not endorse the current bills but said we needed to do something targeted. We are setting up meetings with staff for all the key Dems in the Senate next week.

Child Labor Procurement: Memo to Chief of Staff with draft executive order sent to you, Lael, and Karen for final review. If we go ahead with executive order, an event with Harkin on report would be a good opportunity to announce executive order.

Consumer Financial Right-to-Know: Trying to get ready for an NEC deputies meeting on Friday (2/12). Rubin doesn ,t want us do anything that Fed will oppose, which, if we agree, may require abandoning a few items, but not lots.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 17:29:02.00

SUBJECT: Re: Final Gail cousins

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

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

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

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

TEXT:
Note that I have edits on a number of things for my talking points for the VPs remarks. I didn't think it made sense to forward them all since only some of it will emerge in the final remarks, but I wanted you to be on notice that there will be edits of that sort. Numbers and ways of describing things are shifting a bit. tks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Pieter J. Boelhouwer (CN=Pieter J. Boelhouwer/O=OVP [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 17:33:16.00

SUBJECT: Delilah's remarks

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

TO: HEALY.monica (HEALY.monica @ pbgc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: kevin.maroney (kevin.maroney @ dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: Golding Debra" (Golding Debra" @ pwba.dol.gov, "Kramerich Leslie" @ pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
WE are almost there. Maybe a bit much, but here are Delilah's remarks.
Pleae provide any comments in bold in the document, or separate if
thematic points. thanks=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D43]MAIL440941544.036 to ASCII,
The following is a HEX DUMP:

================= END ATTACHMENT 1 =================

Remarks from Delilah.....

- Thank you for inviting me here to share my experiences as a small business owner. I'm the owner of Delilah's Southern Cuisine in Philadelphia. INSERT A LITTLE BIT ABOUT HER ROAD TO SUCCESS. ... Now I operate five restaurant locations and have been in business for more than 15 years.

- I am employer who cares about the future of my employees and who's looking to provide them with a pension plan so that they can live comfortably in retirement. Over the years, I have looked into several retirement plan options, from payroll deduction IRAs to 401(k) plans.

- I have had some reservations about starting a plan because many of my employees, although they know they should save for retirement, earn lower wages and find it difficult to contribute to a savings plan. Many of them are the primary wage earners in their families and are trying to meet their more immediate needs such rent, utilities, groceries, etc.

- Because of my concern for the number of employees that would be able to participate in the plan, I have always thought that it would be ideal if I could offer a defined benefit plan where the employees are not expected to contribute money. I'm sure that with knowing the importance of having a pension they would all love to have the opportunity to participate in this type of plan.

- My ability to attract and retain good workers is vital to the success of my restaurants. But while I need to provide good benefits to my workers, more importantly, I want to. Many of my employees have been with me for a long time and are part of my extended family. Caring for their retirement is important to my business and to me personally.

- I am eager to put a plan in place and am very grateful that the Clinton Gore Administration is helping small business owners provide for the retirement security our workers.

- On behalf of my employees at Delilah's, we thank you for your work.

- And on that note...It is my pleasure to introduce our Secretary of Labor Alexis Herman

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 15:04:19.00

SUBJECT: attached Q&A for VP

TO: donna.shackleford (donna.shackleford @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

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

TO: gillian.hunter (gillian.hunter @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

TO: lisa.andrews (lisa.andrews @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

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

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

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

TO: haacke-carl (haacke-carl @ dol.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

TO: MENCHIK_M (MENCHIK_M @ A1@CD@VAXGTWY [UNKNOWN]) (OMB)
READ:UNKNOWN

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

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

TO: paul.smith (paul.smith @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

TO: william.bortz (william.bortz @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

TEXT:
I didn't focus on the policy details so much as message since he wont' be taking press questions. Feel free to edit if you want.

Group -- Last chance to correct me. ASAP.

Thanks.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D56]MAIL40336744Y.036 to ASCII,
 The following is a HEX DUMP:

================= END ATTACHMENT   1 =================

THE PRESIDENT'S 1998 PENSION PACKAGE:
QUESTIONS AND ANSWERS
February 10, 1999

Q: What is new in this legislation? Isn't this simply repackaging of past year proposals?

A: While parts of this bill have been included in prior year proposals, two important aspects are new. First, the major portability provisions in this bill -- allowing rollovers between and among various types of plans -- are new. Representative Pomeroy has been a leader on this issue in the Congress, but Administration support for these provisions will significantly increase their chances of passage this year. Second, one of our highest priorities is finding ways to encourage small businesses to provide pension plan coverage to their employees. This year we added a significant new inducement -- dramatically lowering the cost PBGC premiums for new plans -- to other incentives that we have supported before: the tax credit and the new simplified plan known as the SMART plan.

Finally, I want to emphasize the significance of this announcement separate and apart from how "new" each legislative provision is. Thanks to the President's pledge to save social security and his new USA account proposal, the nation and our capital are engaged in thoughtful discussion about social security and increasing individual savings. But it is very important that we not ignore the third important element of retirement security -- private pension plans. This President understands the importance of all three elements of our retirement system and wants to make progress in all three areas this year.

Q: Isn't this pretty tepid stuff? Where is the Administration on the proposals by industry to revise the nondiscrimination rules to allow greater benefits to be paid to senior staff and thus induce more companies to start, maintain, or modernize defined benefit plans? PBGC head David Strauss has been promoting these proposals? Does the Administration support them?

There are many issues in the private pension system that are yet to be addressed. We are concerned that there appears to be diminished support for defined benefit plans among private employers. We are looking to see what the evidence suggests is really happening, to understand the consequences, and to consider ways to address problems. In his short tenure at PBGC, David Strauss has been a champion of providing workers with great retirement benefits through defined benefit plans. The Administration will be looking together at the issues David has raised and consider some of the proposals that have been advanced for the defined benefit system.

Q: What would your package do to increase pension security for women?

A: (1) The portability provisions will be of special importance to women who are more likely to move in and out of the workforce and change jobs. By making it easier for them to accumulate their retirement savings from various plans in one place, it reduce one temptation to liquidate and spend small retirement savings (with the resultant penalty) and encourage greater savings.

(2) Faster vesting in employer matching contributions for 401(k) plans will benefit women who are less likely than men to work for the same employer for as long.

(3) Counting Family and Medical Leave Act leave toward plan vesting will shorten the time for plan vesting for women who are most likely to take advantage of FMLA leave.

(4) Since women live longer, more women end up as widows, some relying upon a small survivor benefit from their husband's pension plan. By giving couples the option of a higher survivor benefit, more widows will be able to live comfortably after the death of their spouse. Moreover, by requiring that spouses get important information before they can waive their right to survivor benefits, we will ensure that choices about retirement options are informed.

(5) Fewer woman who work have pension coverage, often because they work part-time or for shorter periods of time. By allowing workers without an employer pension plan to save in an IRA through payroll deduction, it will make it easier for more women to save for their retirement.

(6) The new SMART plan will encourage more small businesses to start plans. Currently, more than 10 million women work for small firms that do not offer pension plans.

Q: Supporters of private pension plans criticize the Administration's USA Account proposal. They argue that instead of investing billions to make relatively small contributions to workers retirement savings, you should be investing in restoring the private employer pension system where employees can receive much more significant help toward building retirement security?

Individual savings versus private pensions is a false choice. American workers need social security, individual savings, and employer pensions for a comfortable and secure retirement. We must do what makes sense, as this package does, to make it easier for small businesses to provide private pensions for their workers; but, we also must recognize that some employees, especially lower-wage workers, do not have pensions and so we need to find a way to encourage retirement savings for these Americans too.

Q: Senator Roth has proposed a 401(k) version of his Roth IRAs -- a new kind of 401(k) plan, in which workers put after-tax dollars, but they can withdraw the money tax-free at a later date? What is the administration's view?

A: The Administration shares Senator Roth's goal of increasing individual savings for retirement. We look forward to working with him on pension issues and social security issues this year. In our view, the highest priority has to be increasing savings for those least able to save on their own, so that all Americans can look forward to dignity in their retirement years. The President's proposal to create USA Accounts will provide direct incentives to low and moderate income Americans to increase their savings.

[BACKGROUND: We think the Roth 401(k) plan has the wrong distributional effect. In essence, it provides greater tax benefits for savings to higher income workers. But Senator Roth has been temperate in his comments on the Administration's social security plan and we do not want to criticize his proposals or do anything to diminish our ability to work with him this year.]

Q: What are the implications of today's proposals, and the President's social security and USA account proposals, for the Railroad Retirement System? Does president propose investing any funds in the Railroad Retirement trust fund in equities?

A: As you may know, the Railroad Retirement System is unique. First created before social security was in place, it really provides the equivalent of both social security (so called tier 1 benefits) and a private employer pension (so called tier 2 benefits).

Regarding the tier 1 system, just as we must ensure that social security is there for future generations, so too we must ensure that the railroad retirement system is there to meet the needs of future railroad retirees. Each year, the Social Security Administrator and the Railroad Retirement Board transfer money between Social Security and the Railroad Retirement trust funds to restore them to what their financial position would be if railroad workers had been covered by social security. In 1999, about $3.5 billion dollars will flow from Social Security to the Railroad Retirement system to pay for "social security equivalent" benefits and some funds will flow to the Railroad Retirement fund from Social Security through 2057. As a result, railroad retirees will benefit indirectly by ensuring that social security is solvent to make those transfers. At this time, there is no plan to invest any of the Railroad Retirement fund's holdings in equities. However, to the extent that the social security trust fund value is increased by limited equity investment of a fraction of the surplus, the railroad retirement system will benefit by ensuring social security's ability to make the transfer payments.

Regarding the tier 2 system, nothing in our private pension proposals today would change the benefits available to railroad retirement workers.

Q: How would the SMART be simpler than traditional defined benefit plans? Why would it be appealing to small businesses?

A: <u>Simpler</u>: SMART takes the advantages of traditional defined benefit pension plans and makes them available to small employers by:

- reducing the regulatory complexity;
- eliminating complex actuarial calculations
- making funding contributions more predictable than under a traditional defined benefit plan;
- lowering administrative costs; and
- reducing PBGC premiums.

Attractive to small businesses: Small business owners are often baby boomers, and not far from retirement age, when their business matures and is ready to support a pension plan. If the owner and his or her workers have not been covered by a retirement plan before, then setting up a defined contribution plan at this stage may be too late to really help them build up adequate retirement savings. A defined benefit plan makes more significant retirement savings available and offers workers and spouses a secure and predictable benefit for life. And it is backed up by PBGC insurance.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Pieter J. Boelhouwer (CN=Pieter J. Boelhouwer/O=OVP [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 16:01:37.00

SUBJECT: Gail Cousins remarks

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

CC: Mark.iwry (Mark.iwry @ treas.sprint.gov [UNKNOWN])
READ:UNKNOWN

CC: Kevin.maloney (Kevin.maloney @ dol.gov [UNKNOWN])
READ:UNKNOWN

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

TEXT:
Gail will be introducing the VP. Attached are her draft remarks which
look fine to me, but wanted you quick read. Please get back to me by 5.
thanks=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D41]MAIL43725844Y.036 to ASCII,
The following is a HEX DUMP:

================= END ATTACHMENT 1 =================

A:gail.wpd

STATEMENT OF GAIL COUSINS

Good Morning. It is an absolute honor to be here with Vice President Gore, Secretary Rubin and Secretary Herman. As a working woman, and a single mother, let me say that the issue of retirement security is extraordinarily important to me. It is something that I have thought deeply about, struggled with, and I am delighted that the Vice President is working to improve and strengthen retirement security.

Like so many women, I did not work when my son was young. My husband was the breadwinner in our household. I certainly did not give any thought to pensions or to retirement planning issues at that time.

Shortly before my divorce, and after my son was a little older, I went back to work, to help my family through what I thought was a short-term financial squeeze. My first job was with a temp agency performing secretarial services. This job did not come with any type of retirement plan. Later I worked for another temporary agency. One of the jobs in which I was placed by the agency offered me permanent employment which I accepted.

It was at this point in my life I was in my mid-to-late 40's and I realized that I had better start preparing for my retirement. At the time I was earning maybe $220 per week--I needed only $200 at that time to live, and so I began saving about $20 per week on my own. Over time, I opened an IRA account and started saving as much as possible.

My new employer had a good retirement savings program. The company also had a 401(k) plan with a good match. I participated in the plan as much as possible and I began to see my account balance steadily increase. It was an "eye-opening" experience for me and I get hooked on saving and investing for retirement. But then there was a reduction in force--a RIF-- at my job and I was laid off. Because, at the time, I very much wanted to continue working with this company, I left my 401(k) with the company. After a period of time, I returned to the company. After four more years of work, I was RIFed again.

At this point, I went to work on my own. I have to say that even though I was a committed saver by this point in time, having a number of IRAs to watch over and manage, was a daunting task. I felt confused by the rules, but at the same time, I knew that I needed to pay close attention to what I was doing so as to avoid making mistakes. I certainly did not want to have to pay any more in taxes than I had to. And I wanted to get the best return on my money as possible. I knew the market was good, and I wanted to be assured of the greatest amount of retirement income possible.

With Social Security's guarantee, my pension and my own savings, I think I really did "OK" through all of this, but I have to tell you it was not easy. And now I have reached the point where I am beginning to worry about my son. He is 27, newly married and even though he has a good job, he has high expenses, and saving for retirement is not a top priority. So now as I reach the end of my working career, I'm beginning to worry about my son and his family's retirement. I'm trying to help him get started on his retirement planning and saving. I guess you never stop saving and planning for retirement and you never stop being a mom. I consider it a great honor and privilege to be able to introduce the Vice President who is working so hard to provide retirement security for all americans.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 09:49:57.00

SUBJECT: VP Event/2nd Message/Validators

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

TEXT:
---------------------- Forwarded by Sarah Rosen/OPD/EOP on 02/10/99 09:51 AM ---------------------------

Schub.Judy @ pbgc.gov (Schub Judy)
02/04/99 05:40:19 PM
Record Type: Record

To: Sarah Rosen/OPD/EOP
cc: Healy.Monica @ pbgc.gov (Healy Monica)
Subject: VP Event/2nd Message/Validators

Brian Graf (APSA) will not serve as a validator.

Cindy Hounsell of WISER (Women's Institute for a Secure Retirement) will be glad to. While she can address the two "women's" proposals, she also can relate the coverage and portability provisions to women. Her number is 393-5452.

Donna Lenhof of the National Partnership for Women & Families is willing to be a validator. Her phone number is 986-2600.

I asked Donna about finding a "real" person for the FMLA provision. She suggested we check her Website since they have the stories of real people posted. Her Website is: www.nationalpartnership.org

I assume you (or someone at the VP's office) will follow up on this.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Schub.Judy@pbgc.gov (Schub Judy) (Schub.Judy@pbgc.gov (Schub Judy) [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 14:18:05.00

SUBJECT: RE: VP Briefing Memo

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

TEXT:
I have a few small comments, as follows:

Under expanding coverage: I don't think its fair to characterize the proposals pending on the Hill as "Republican". I would simply leave out that word. (There are many versions of the tax credit from both Democrats and Republicans.)

Under expanding right to know: I don't think you should single out women's group support for the spousal disclosure. (This was a Treasury-initiated proposal and while laudatory, doesn't appear on most radar screens.)

Under pension security: it the accountants that have supported NOT the actuaries. (Sorry I didn't spell out AICPA in my memo to you -- It stands for American Institute of Certified Public Accountants.)

From: Sarah_Rosen
To: Sirkin Stuart; Pacelli Jane; Gustafson David; Schub Judy; Healy Monica; Grant Joseph; Pieter_J._Boelhouwer%OVP; Melissa_N._Benton; jane.molloy; hinzr; kramerich-leslie; lees; lindrewg; maroney-kevin; mcgahey-richard; watsons; montgomery-edward; holzer-harry; haacke-carl; william.bortz; lisa.andrews; mark.iwry; gillian.hunter; paul.smith; deborah.walker; harlan.weller; donald.wellington; MENCHIK_M%A1%CD%VAXGTWY; Cordelia_W._Reimers; Laurence_R._Jacobson; Bruce_D._Long; donna.shackleford
Subject: VP Briefing Memo
Date: Wednesday, February 10, 1999 10:00AM

<<File Attachment: PENSVP.BRF>>
Attached is a preliminary draft of the VP memo. Feel free to edit, especially the stuff on interest group support. I thought it could be easily summarized by issue, but by the time I was done, it was still way to complex. You might just want to summarize that there is support for various provisions, indifference to various provisions, and some opposition from business to some provisions.

Working group -- I need your comments on the fact sheet by 11:00 this morning. Comments on this as well, but that is the most important document.

Thanks all.

(See attached file: pensvp.brf)

--base64 encoded file (pensvp.brf) attached...

------ Message Header Follows ------
Received: from gatekeeper.eop.gov by mail.pbgc.gov
(PostalUnion/SMTP(tm) v2.2 (Build 22005) for Windows NT(tm))
id AA-1999Feb10.100146.1484.47230; Wed, 10 Feb 1999 10:01:46 -0500
Received: from lngate3.eop.gov by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM)
id AA01034; Wed, 10 Feb 1999 10:01:05 -0500
Received: by lngate3.eop.gov(Lotus SMTP MTA SMTP v4.6 (462.2 9-3-1997)) id
85256714.00527E8B ; Wed, 10 Feb 1999 10:01:03 -0500
X-Lotus-Fromdomain: EOP
From: Sarah_Rosen@opd.eop.gov
To: Pieter_J._Boelhouwer%OVP@oa.eop.gov, Melissa_N._Benton@omb.eop.gov,
jane.molloy@mail.doc.gov, hinzr@pwba.dol.gov,
kramerich-leslie@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,
haacke-carl@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, william.bortz@treas.sprint.com,
lisa.andrews@treas.sprint.com, mark.iwry@treas.sprint.com,
gillian.hunter@treas.sprint.com, paul.smith@treas.sprint.com,
deborah.walker@treas.sprint.com, harlan.weller@treas.sprint.com,
donald.wellington@treas.sprint.com, mark.iwry@treas.sprint.com,
Pieter_J._Boelhouwer%OVP@oa.eop.gov,
MENCHIK_M%A1%CD%VAXGTWY@oa.eop.gov,
Cordelia_W._Reimers@cea.eop.gov,
Laurence_R._Jacobson@omb.eop.gov, Bruce_D._Long@omb.eop.gov,
Melissa_N._Benton@omb.eop.gov, donna.shackleford@treas.sprint.com
Message-Id: <85256714.00523035.00@lngate3.eop.gov>
Date: Wed, 10 Feb 1999 10:00:13 -0500
Subject: VP Briefing Memo
Mime-Version: 1.0
Content-Type: multipart/mixed;
Boundary="0__=JWXFIEsZSFDBjo7V7KzQHk5xGrGWuVZ0htGxQAROapxHjJ3XMqKf77Na"

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 08:07:33.00

SUBJECT: Attached Pensions Fact Sheet

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

CC: Jeff B. Liebman (CN=Jeff B. Liebman/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: jodi r. sakol (CN=jodi r. sakol/O=ovp @ ovp [UNKNOWN])
READ:UNKNOWN

CC: dan j. taylor (CN=dan j. taylor/O=ovp @ ovp [UNKNOWN])
READ:UNKNOWN

CC: donna.shackleford (donna.shackleford @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: beier_d (beier_d @ a1 @ cd @ vaxgtwy [UNKNOWN]) (VPO)
READ:UNKNOWN

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

CC: paul.smith (paul.smith @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: william.bortz (william.bortz @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

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

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

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

CC: david w. beier (CN=david w. beier/O=ovp @ ovp [UNKNOWN])
READ:UNKNOWN

CC: pieter j. boelhouwer (CN=pieter j. boelhouwer/O=ovp @ ovp [UNKNOWN])
READ:UNKNOWN

CC: miller-ranetta (miller-ranetta @ dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: menchik_m (menchik_m @ a1 @ cd @ vaxgtwy [UNKNOWN]) (OMB)
READ:UNKNOWN

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

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

CC: gillian.hunter (gillian.hunter @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

CC: lisa.andrews (lisa.andrews @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

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

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

CC: haacke-carl (haacke-carl @ dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

TEXT:
I know this is supposed to be 2 pages, not 4, but this stuff is really hard to summarize and still be coherent. I have tried to put the message points in the first page and a half so that only those who want the details keep reading. COMMENTS WELCOME. PENSIONS GROUP -- PLEASE REVIEW FOR ACCURACY ASAP.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D40]MAIL44606144J.036 to ASCII,
The following is a HEX DUMP:

================== END ATTACHMENT 1 ==================

THE CLINTON-GORE ADMINISTRATION'S PENSION LEGISLATION: HELPING MORE AMERICANS TO A SECURE AND COMFORTABLE RETIREMENT

February 11, 1999 -- DRAFT

THE CLINTON-GORE LEGISLATION WOULD STRENGTHEN AND EXPAND THE PRIVATE PENSION SYSTEM BY:

- **Making it Easier for Small Businesses to Start Private Pension Plans**
- **Making it Easier for Workers to Make Contributions to Individual Retirement Accounts (IRAS) by Payroll Deduction**
- **Making it Easier to Vest in Employer Matching Contributions**
- **Making it Easier for Workers to Take Their Pensions When They Change Jobs**
- **Making it Easier for Workers and Their Spouses to Understand Their Pension Rights**
- **Making it Easier for Women to Get Adequate Pension Income for Retirement**
- **Making Private Pension Plans Simpler**
- **Making Private Pensions More Secure**

Millions of American retirees enjoy a comfortable retirement because they can count on income from three sources: social security, individual savings and private employer pensions. The Clinton-Gore FY 2000 budget would continue to enhance Americans' retirement security by increasing access to, and ensuring the security of, all three sources of retirement income.

[illegible] m solvent until 2055 -- and working [illegible] for businesses to create new defined benefit plans, increase portability of private pensions, improve retirement security for women, expand workers' "right-to-know" about their own pensions, increase the security of private pension plans, and simplify private pension plan administration.

Retirees that can count on a private pension, in addition to social security and personal savings, enjoy the most secure retirement. For many retirees, private pensions make the difference between simply getting by and fully enjoying their "golden years." While private pension coverage continues to grow, still too few benefit today.

- **Half of all American workers -- more than 50 million people -- have no pension plan at all.** The problem is most acute for small business workers. Although businesses with less than 100 workers provide 40 million jobs, only 20% -- about 8 million of these employees -- get a pension from their employer. In comparison, 62% of workers in firms with 100 or more employees have pension coverage.

- **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. Those that women receive are worth less than those received by men. (Among new private sector pensions annuity recipients in 1993-94, the median annual benefit for women was $4,8000 or only half of the median benefit of $9,600 received by men.) And, even among those women who work, fewer women than men have pensions through work (40% compared to 44%), because many women work in part-time jobs or move in and out of the workforce.

- **An increasingly mobile workforce makes accumulating and managing retirement benefits more difficult.** Between the ages of 18 and 32 alone, the average person holds 9 different jobs. The amount of time older workers have spent in their current job declined from 12 to 10 years between 1987 and 1998. Workers frustrated by keeping track of their various retirement accounts are tempted to cash out their retirement benefits and spend these all important savings on current consumption. Two-thirds of workers receiving a lump sum distribution from a pension plan do not roll over the distribution into retirement savings.

ELEMENTS OF THE CLINTON-GORE PLAN: EXPANDING COVERAGE

Small Business Pension Program Start-up Tax Credit. The Administration's plan provides a three-year tax credit to encourage small businesses to set up retirement programs. For the first year of the plan, small businesses would be entitled to a credit 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.
Cost: $520 million over five years

The SMART Plan -- A Simplified Defined Benefit Plan. In 1996, the Administration and Congress created the SIMPLE plan -- an easy-to-administer defined contribution plan for small businesses. The SMART plan provides, for the first time, a simplified defined benefit-type plan for small business. The Administration's proposal builds on the bipartisan "SAFE plan" proposal of Representatives Earl Pomeroy and Nancy Johnson. The SMART (Secure Money Annuity or Retirement Trust) combines many of the best features of defined benefit and defined contribution plans.

- **Another easy-to-administer pension option for small businesses.** Most nondiscrimination rules and a number of other pension plan requirements would be waived for this new plan. SMART plans would be an option for most small businesses with 100 or fewer employees that do not offer (and have not offered during the last 5 years) a defined benefit or money purchase plan.
- **Broad coverage.** Employers choosing a SMART plan would make contributions for all eligible workers (over 21 with at least $5,000 in W-2 earnings with the employer in that year and in two preceding consecutive years).
- **Guaranteed benefit.** Participants would be guaranteed a minimum annual benefit upon retirement, but could receive a larger benefit if the return on plan investments exceeds specified conservative assumptions (i.e., a 5 percent rate of return). The SMART benefit would generally be guaranteed by the Pension Benefit Guaranty Corporation, at a reduced premium.

Cost: $313 million over five years

Reduced PBGC Premium for New Business Plans. The Pension Benefit Guaranty Corporation administers an insurance program that guarantees workers that they will get most if not all of their benefits in the event that the plan has inadequate resources to meet its obligations. PBGC charges each defined benefit plan an annual premium of $19 per participant, plus a variable rate premium of $9 per $1,000 of underfunding. **Small Businesses:** To encourage formation of new defined benefit plans among small employers, the Administration's bill would lower the premium to $5 per participant (and eliminate the variable rate premium) for the first five years of a new small business plan. **Larger Businesses:** To

encourage formation of new defined benefit plans among larger employers, the Administration bill would leave the flat rate premium unchanged but would phase in the variable rate premium 20% each year for the first five years of a plan.
Cost: Negligible

Expanded Payroll Deductions for Retirement Savings through IRAS. 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 fax forms. The greater convenience of saving through payroll deduction encourages low and moderate-wage earners to save more for retirement; witness the rising participation rates in 401(k) plans. Small businesses establishing such arrangements would be eligible for the new pension program start-up tax credit.
Cost: Included in estimates for tax credit above

ELEMENTS OF THE CLINTON-GORE PLAN: INCREASING PORTABILITY

Faster Vesting of Employer Matching Contributions. Currently, employer matching contributions to, for example, a 401(k) plan, only need vest after 5 years (or 7 years if vesting is phased in). If an employee switches jobs after 4 years, she looses all of those employer matching contributions. The vesting requirement has a disproportionate adverse impact on female employees who tend to have shorter job tenure. Under the Administration's proposal, 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).
Cost: Negligible

Make it Easier to Consolidate Retirement Savings by Permitting Rollovers Between Various Types of Plans. (1) Permit eligible rollover distributions from a qualified retirement plan to be rolled over a Section 403(b) tax-sheltered annuity or visa versa; (2) Allow rollovers from non qualified deferred compensation plans of state or local government (Section 457 plans) to be rolled over into an IRA; (3) To allow workers to consolidate their workplace retirement savings and their IRAS in the same place, permit rollovers of IRAS into workplace retirement plans; (4) allow rollovers of after-tax contributions to new employer's defined contribution plan or an IRA if separate tracking of after-tax contribution is provided; (5) Allow the Thrift Savings Plan (a retirement savings plan for federal government employees) to accept tax-free rollovers from private plans; and (6) Allow employees of state and local governments to use funds in their retirement plans to purchase service credits in new plans without a taxable distribution, allowing teachers especially, who often move between state 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.
Cost: Negligible
Allow Federal Employees to Immediately Participate in the TSP and Receive Agency Matching Contributions. Under current law, employees can sign-up to contribute to TSP only during two semi-annual election periods and newly hired employees can only participate in the second election period after being hired. As a result, the average waiting time for participation is 9 months. Under this plan, employees could contribute immediately and agency automatic and matching contributions would begin then as well. The Federal government should be a model employer, by providing means and encouragement for its employees to save for their retirement.
Cost: $14 million in revenue costs plus marginally higher new personnel costs absorbed in agency S&E budgets (substantially less than one-tenth of one percent of S&E).

<u>Help Reunite Workers with Benefits to Which They Are Entitled -- Expand the PBGC Missing Participant Program.</u> The Missing participant program helps to find workers with pension rights under single-employer defined benefit retirement plans that have been terminated. The Administration's bill would expand the program to include terminating multiemployer plans, non-PBGC covered defined benefit plans, and defined contribution plans.
Cost: Negligible.

ELEMENTS OF THE CLINTON-GORE PLAN: RETIREMENT SECURITY FOR WOMEN

<u>Count FMLA Leave Toward Retirement Vesting.</u> The Administration's legislation would allow workers, who take time off under the Family and Medical Leave Act (FMLA), to count that time toward retirement plan vesting requirements. (Under FMLA, eligible workers are entitle to up to 12 weeks of unpaid leave to care for a new child, a sick family member, or for their own serious health problems.) In some cases, counting time taken under FMLA can make the difference between receiving or not receiving credit toward minimum pension vesting requirements.
Cost: Negligible

<u>Require Pension Plans to Offer a 75% Survivor Annuity Option.</u> Currently, 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 pays a lower pension benefit, but it would continue paying 50% of the amount after their death to their surviving spouse. Today, over 60% of couples select a joint and survivor annuity when given the opportunity. Unfortunately, living alone is not always half as expensive. 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. Nothing would require the couple to take this option, but it would provide another choice.
Cost: $7 million over 5 years

ELEMENTS OF THE CLINTON-GORE PLAN: PENSION RIGHT-TO-KNOW

<u>EXPAND PENSION RIGHT-TO-KNOW PROVISIONS FOR WORKERS AND SPOUSES.</u> The President's pension right-to-know initiative includes the following rights: **(1)** Spouses would be provided a description of the benefit choices under the worker's plan so that they can help make informed choices. (Certain plans require that the pension be provided in the form of the joint and survivor annuity benefit unless the spouse waives that right. However, spouses do not always understand what rights it is that they are waiving.) **(2)** participants in defined benefit pension plans would automatically be provided a statement every three years of the benefit payable at retirement if the individual left that employer as of the date of the statement; and **(3)** participants in defined contribution plans would be provided a statement at least annually. Knowledge of the vested benefit is critically important for retirement planning. It can be quite difficult, in case of an error by a plan, to obtain the documentation of past earnings or service needed to correct the mistake if much time has passed. Under current law, participants have the right to request (in writing) a benefit statement annually, if one is not routinely provided by the employer, but this right is rarely exercised, in part because it is not well known.
Cost: None

ELEMENTS OF THE CLINTON-GORE PLAN: SIMPLIFICATION AND SECURITY

<u>SIMPLIFYING PENSIONS AND FURTHER INCREASING RETIREMENT SECURITY AND SAVINGS</u>. The package will also include proposals previously made by the Administration, including the following: **(1)** the pension audit bill, which would subject more pension assets to meaningful audits; **(2)** changes to multiemployer (collectively bargained) plan rules which would increase the level of multiemployer benefits guaranteed by the PBGC, increase the permitted funding level, and simplify the maximum benefit limitations; **(3)** rule changes that would ensure greater pension benefits for low and moderate income workers in simplified 401(k) plans; and **(4)** further simplification of the definition of highly compensated employees.
Cost: $173 million over 5 years

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:10-FEB-1999 11:02:41.00

SUBJECT: Re: Attached Pensions Fact Sheet

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

TEXT:
The only thing I've noticed by your 11:00 deadline is:
First box, 4th bullet -- say "Making it Easier for Workers to Take Pensions With Them When Changing Jobs." Now it could mean taking lump-sum distributions, to spend!

I will keep reading and send you any other suggestions I have ASAP.

Sarah Rosen
02/10/99 08:06:42 AM
Record Type: Record

To: Sarah Rosen/OPD/EOP
cc: See the distribution list at the bottom of this message
Subject: Attached Pensions Fact Sheet

I know this is supposed to be 2 pages, not 4, but this stuff is really hard to summarize and still be coherent. I have tried to put the message points in the first page and a half so that only those who want the details keep reading. COMMENTS WELCOME. PENSIONS GROUP -- PLEASE REVIEW FOR ACCURACY ASAP.

Message Copied
To:
Melissa N. Benton/OMB/EOP
jane.molloy @ mail.doc.gov @ inet
hinzr @ pwba.dol.gov @ inet
kramerich-leslie @ dol.gov @ inet
lebowitza @ pwba.dol.gov @ inet
lees @ pwba.dol.gov @ inet
lindrewg @ pwba.dol.gov @ inet
maroney-kevin @ dol.gov @ inet
mcgahey-richard @ dol.gov @ inet

watsons @ pwba.dol.gov @ inet
montgomery-edward @ dol.gov @ inet
holzer-harry @ dol.gov @ inet
haacke-carl @ dol.gov @ inet
grant.joseph @ pbgc.gov @ inet
healy.monica @ pbgc.gov @ inet
schub.judy @ pbgc.gov @ inet
gustafson.david @ pbgc.gov @ inet
pacelli.jane @ pbgc.gov @ inet
sirkin.stuart @ pbgc.gov @ inet
william.bortz @ treas.sprint.com @ inet
lisa.andrews @ treas.sprint.com @ inet
mark.iwry @ treas.sprint.com @ inet
gillian.hunter @ treas.sprint.com @ inet
paul.smith @ treas.sprint.com @ inet
deborah.walker @ treas.sprint.com @ inet
harlan.weller @ treas.sprint.com @ inet
donald.wellington @ treas.sprint.com @ inet
beier_d @ a1 @ cd @ vaxgtwy
menchik_m @ a1 @ cd @ vaxgtwy
Cordelia W. Reimers/CEA/EOP
Laurence R. Jacobson/OMB/EOP
Bruce D. Long/OMB/EOP
miller-ranetta @ dol.gov @ inet
donna.shackleford @ treas.sprint.com @ inet
pieter j. boelhouwer/ovp @ ovp
dan j. taylor/ovp @ ovp
david w. beier/ovp @ ovp
jodi r. sakol/ovp @ ovp
Jake Siewert/OPD/EOP
Jeff B. Liebman/OPD/EOP
Jonathan Orszag/OPD/EOP

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D82]MAIL40061444T.036 to ASCII,
The following is a HEX DUMP:

================== END ATTACHMENT 1 ==================

THE CLINTON-GORE ADMINISTRATION'S PENSION LEGISLATION: HELPING MORE AMERICANS TO A SECURE AND COMFORTABLE RETIREMENT

February 11, 1999 -- DRAFT

THE CLINTON-GORE LEGISLATION WOULD STRENGTHEN AND EXPAND THE PRIVATE PENSION SYSTEM BY:

- **Making it Easier for Small Businesses to Start Private Pension Plans**
- **Making it Easier for Workers to Make Contributions to Individual Retirement Accounts (IRAS) by Payroll Deduction**
- **Making it Easier to Vest in Employer Matching Contributions**
- **Making it Easier for Workers to Take Their Pensions When They Change Jobs**
- **Making it Easier for Workers and Their Spouses to Understand Their Pension Rights**
- **Making it Easier for Women to Get Adequate Pension Income for Retirement**
- **Making Private Pension Plans Simpler**
- **Making Private Pensions More Secure**

Millions of American retirees enjoy a comfortable retirement because they can count on income from three sources: social security, individual savings and private employer pensions. The Clinton-Gore FY 2000 budget would continue to enhance Americans' retirement security by increasing access to, and ensuring the security of, all three sources of retirement income.

__ **Social Security:** Transfer 62% of the projected budget surplus over 15 years by allocating a portion of the transferred surplus ... Keeping the System solvent until 2055 -- and working with Congress to make other reforms to save the system until at least 2075

__ **Individual Savings:** Tax credits to help working families save for retirement by allocating 12% of the projected surplus for new Universal Savings Accounts (USAs)

__ **Private Employer Pension Plans:** Expand coverage by making it easier for businesses to create new defined benefit plans, increase portability of private pensions, improve retirement security for women, expand workers' "right-to-know" about their own pensions, increase the security of private pension plans, and simplify private pension plan administration.

Retirees that can count on a private pension, in addition to social security and personal savings, enjoy the most secure retirement. For many retirees, private pensions make the difference between simply getting by and fully enjoying their "golden years." While private pension coverage continues to grow, still too few benefit today.

- **Half of all American workers -- more than 50 million people -- have no pension plan at all.** The problem is most acute for small business workers. Although businesses with less than 100 workers provide 40 million jobs, only 20% -- about 8 million of these employees -- get a pension from their employer. In comparison, 62% of workers in firms with 100 or more employees have pension coverage.

- **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. Those that women receive are worth less than those received by men. (Among new private sector pensions annuity recipients in 1993-94, the median annual benefit for women was $4,8000 or only half of the median benefit of $9,600 received by men.) And, even among those women who work, fewer women than men have pensions through work (40% compared to 44%), because many women work in part-time jobs or move in and out of the workforce.

- **An increasingly mobile workforce makes accumulating and managing retirement benefits more difficult.** Between the ages of 18 and 32 alone, the average person holds 9 different jobs. The amount of time older workers have spent in their current job declined from 12 to 10 years between 1987 and 1998. Workers frustrated by keeping track of their various retirement accounts are tempted to cash out their retirement benefits and spend these all important savings on current consumption. Two-thirds of workers receiving a lump sum distribution from a pension plan do not roll over the distribution into retirement savings.

ELEMENTS OF THE CLINTON-GORE PLAN: EXPANDING COVERAGE

Small Business Pension Program Start-up Tax Credit. The Administration's plan provides a three-year tax credit to encourage small businesses to set up retirement programs. For the first year of the plan, small businesses would be entitled to a credit 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.
Cost: $520 million over five years

The SMART Plan -- A Simplified Defined Benefit Plan. In 1996, the Administration and Congress created the SIMPLE plan -- an easy-to-administer defined contribution plan for small businesses. The SMART plan provides, for the first time, a simplified defined benefit-type plan for small business. The Administration's proposal builds on the bipartisan "SAFE plan" proposal of Representatives Earl Pomeroy and Nancy Johnson. The SMART (Secure Money Annuity or Retirement Trust) combines many of the best features of defined benefit and defined contribution plans.

- **Another easy-to-administer pension option for small businesses.** Most nondiscrimination rules and a number of other pension plan requirements would be waived for this new plan. SMART plans would be an option for most small businesses with 100 or fewer employees that do not offer (and have not offered during the last 5 years) a defined benefit or money purchase plan.
- **Broad coverage.** Employers choosing a SMART plan would make contributions for all eligible workers (over 21 with at least $5,000 in W-2 earnings with the employer in that year and in two preceding consecutive years).
- **Guaranteed benefit.** Participants would be guaranteed a minimum annual benefit upon retirement, but could receive a larger benefit if the return on plan investments exceeds specified conservative assumptions (i.e., a 5 percent rate of return). The SMART benefit would generally be guaranteed by the Pension Benefit Guaranty Corporation, at a reduced premium.

Cost: $313 million over five years

Reduced PBGC Premium for New Business Plans. The Pension Benefit Guaranty Corporation administers an insurance program that guarantees workers that they will get most if not all of their benefits in the event that the plan has inadequate resources to meet its obligations. PBGC charges each defined benefit plan an annual premium of $19 per participant, plus a variable rate premium of $9 per $1,000 of underfunding. **Small Businesses:** To encourage formation of new defined benefit plans among small employers, the Administration's bill would lower the premium to $5 per participant (and eliminate the variable rate premium) for the first five years of a new small business plan. **Larger Businesses:** To

encourage formation of new defined benefit plans among larger employers, the Administration bill would leave the flat rate premium unchanged but would phase in the variable rate premium 20% each year for the first five years of a plan.
Cost: Negligible

Expanded Payroll Deductions for Retirement Savings through IRAS. 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 fax forms. The greater convenience of saving through payroll deduction encourages low and moderate-wage earners to save more for retirement; witness the rising participation rates in 401(k) plans. Small businesses establishing such arrangements would be eligible for the new pension program start-up tax credit.
Cost: Included in estimates for tax credit above

ELEMENTS OF THE CLINTON-GORE PLAN: INCREASING PORTABILITY

Faster Vesting of Employer Matching Contributions. Currently, employer matching contributions to, for example, a 401(k) plan, only need vest after 5 years (or 7 years if vesting is phased in). If an employee switches jobs after 4 years, she looses all of those employer matching contributions. The vesting requirement has a disproportionate adverse impact on female employees who tend to have shorter job tenure. Under the Administration's proposal, 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).
Cost: Negligible

Make it Easier to Consolidate Retirement Savings by Permitting Rollovers Between Various Types of Plans. (1) Permit eligible rollover distributions from a qualified retirement plan to be rolled over a Section 403(b) tax-sheltered annuity or visa versa; (2) Allow rollovers from non qualified deferred compensation plans of state or local government (Section 457 plans) to be rolled over into an IRA; (3) To allow workers to consolidate their workplace retirement savings and their IRAS in the same place, permit rollovers of IRAS into workplace retirement plans; (4) allow rollovers of after-tax contributions to new employer's defined contribution plan or an IRA if separate tracking of after-tax contribution is provided; (5) Allow the Thrift Savings Plan (a retirement savings plan for federal government employees) to accept tax-free rollovers from private plans; and (6) Allow employees of state and local governments to use funds in their retirement plans to purchase service credits in new plans without a taxable distribution, allowing teachers especially, who often move between state 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.
Cost: Negligible
Allow Federal Employees to Immediately Participate in the TSP and Receive Agency Matching Contributions. Under current law, employees can sign-up to contribute to TSP only during two semi-annual election periods and newly hired employees can only participate in the second election period after being hired. As a result, the average waiting time for participation is 9 months. Under this plan, employees could contribute immediately and agency automatic and matching contributions would begin then as well. The Federal government should be a model employer, by providing means and encouragement for its employees to save for their retirement.
Cost: $14 million in revenue costs plus marginally higher new personnel costs absorbed in agency S&E budgets (substantially less than one-tenth of one percent of S&E).

Help Reunite Workers with Benefits to Which They Are Entitled -- Expand the PBGC Missing Participant Program. The Missing participant program helps to find workers with pension rights under single-employer defined benefit retirement plans that have been terminated. The Administration's bill would expand the program to include terminating multiemployer plans, non-PBGC covered defined benefit plans, and defined contribution plans.
Cost: Negligible.

ELEMENTS OF THE CLINTON-GORE PLAN: RETIREMENT SECURITY FOR WOMEN

Count FMLA Leave Toward Retirement Vesting. The Administration's legislation would allow workers, who take time off under the Family and Medical Leave Act (FMLA), to count that time toward retirement plan vesting requirements. (Under FMLA, eligible workers are entitle to up to 12 weeks of unpaid leave to care for a new child, a sick family member, or for their own serious health problems.) In some cases, counting time taken under FMLA can make the difference between receiving or not receiving credit toward minimum pension vesting requirements.
Cost: Negligible

Require Pension Plans to Offer a 75% Survivor Annuity Option. Currently, 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 pays a lower pension benefit, but it would continue paying 50% of the amount after their death to their surviving spouse. Today, over 60% of couples select a joint and survivor annuity when given the opportunity. Unfortunately, living alone is not always half as expensive. 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. Nothing would require the couple to take this option, but it would provide another choice.
Cost: $7 million over 5 years

ELEMENTS OF THE CLINTON-GORE PLAN: PENSION RIGHT-TO-KNOW

EXPAND PENSION RIGHT-TO-KNOW PROVISIONS FOR WORKERS AND SPOUSES. The President's pension right-to-know initiative includes the following rights: **(1)** Spouses would be provided a description of the benefit choices under the worker's plan so that they can help make informed choices. (Certain plans require that the pension be provided in the form of the joint and survivor annuity benefit unless the spouse waives that right. However, spouses do not always understand what rights it is that they are waiving.) **(2)** participants in defined benefit pension plans would automatically be provided a statement every three years of the benefit payable at retirement if the individual left that employer as of the date of the statement; and **(3)** participants in defined contribution plans would be provided a statement at least annually. Knowledge of the vested benefit is critically important for retirement planning. It can be quite difficult, in case of an error by a plan, to obtain the documentation of past earnings or service needed to correct the mistake if much time has passed. Under current law, participants have the right to request (in writing) a benefit statement annually, if one is not routinely provided by the employer, but this right is rarely exercised, in part because it is not well known.
Cost: None

ELEMENTS OF THE CLINTON-GORE PLAN: SIMPLIFICATION AND SECURITY

SIMPLIFYING PENSIONS AND FURTHER INCREASING RETIREMENT SECURITY AND SAVINGS. The package will also include proposals previously made by the Administration, including the following: **(1)** the pension audit bill, which would subject more pension assets to meaningful audits; **(2)** changes to multiemployer (collectively bargained) plan rules which would increase the level of multiemployer benefits guaranteed by the PBGC, increase the permitted funding level, and simplify the maximum benefit limitations; **(3)** rule changes that would ensure greater pension benefits for low and moderate income workers in simplified 401(k) plans; and **(4)** further simplification of the definition of highly compensated employees.
Cost: $173 million over 5 years

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Maroney Kevin (Maroney Kevin [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 13:05:57.00

SUBJECT: RE: VP Briefing Memo

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

TEXT:
The reference in your memo to AAUP should probably be AARP. (Maybe you should spell it out the fist time--American Association of Retired Persons, AARP)

Also, the first paragraph's mention of the three legged stool, followed by the parenthetical that we are not using it here is a little confusing. I know what you are saying, but I personally believe that this Administration has such a good track record on private pensions that there is no reason to fear that the third leg is too short. The three legged stool is readily understood--and a cliche-- but still helpful because it shows that we are thinking about all 3 sources of retirement income at once. If you want to get away from this analogy, then I would not use it in the first sentence of the memo.

From: Sarah_Rosen@opd.eop.gov[SMTP:Sarah_Rosen@opd.eop.gov]
Sent: Wednesday, February 10, 1999 10:00 AM
To: Pieter_J._Boelhouwer%OVP@oa.eop.gov; Melissa_N._Benton@omb.eop.gov; jane.molloy@mail.doc.gov; Hinz Richard-PWBA; Kramerich Leslie; Lee Stephen-PWBA; Lindrew Gerald-PWBA; Maroney Kevin; McGahey Richard; Watson Sharon-PWBA; Montgomery Edward; Holzer Harry; Haacke Carl; grant.joseph@pbgc.gov; Healy Monica-PBGC; schub.judy@pbgc.gov; gustafson.david@pbgc.gov; pacelli.jane@pbgc.gov; sirkin.stuart@pbgc.gov; william.bortz@treas.sprint.com; lisa.andrews@treas.sprint.com; mark.iwry@treas.sprint.com; gillian.hunter@treas.sprint.com; paul.smith@treas.sprint.com; deborah.walker@treas.sprint.com; harlan.weller@treas.sprint.com; donald.wellington@treas.sprint.com; mark.iwry@treas.sprint.com; Pieter_J._Boelhouwer%OVP@oa.eop.gov; MENCHIK_M%A1%CD%VAXGTWY@oa.eop.gov; Cordelia_W._Reimers@cea.eop.gov; Laurence_R._Jacobson@omb.eop.gov; Bruce_D._Long@omb.eop.gov; Melissa_N._Benton@omb.eop.gov; donna.shackleford@treas.sprint.com
Subject: VP Briefing Memo

<>
Attached is a preliminary draft of the VP memo. Feel free to edit, especially the stuff on interest group support. I thought it could be easily summarized by issue, but by the time I was done, it was still

way to
complex. You might just want to summarize that there is support
for
various provisions, indifference to various provisions, and some
opposition
from business to some provisions.

Working group -- I need your comments on the fact sheet by 11:00
this
morning. Comments on this as well, but that is the most important
document.

Thanks all.

(See attached file: pensvp.brf)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Richard Hinz (Richard Hinz [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 16:36:21.00

SUBJECT: Issues on the fact sheet

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

TEXT:
Several issues have been raised with the fact sheet. I have gotten several calls from folks who said that you told them to resolve these with me but I have not been able to reach you so I will try to write them down:

1. we state that more than 50 million american workers have no pension. This was an estimate done a couple of years ago. With the growth in the labor force we could no go to 60 million. More than 50 million is obviously still correct and is a statistic that everyone has become used to so it may not matter much

2. The statement about women more likely to receive benefits refers to women who have retired from jobs in the private sector. The way it is written is more general so could potentially be read to include all women. It should state that these numbers are for "women who retired from a private sector job" and refers to a pension "received from their prior employer or as a survivor benefit"

3. You should note that the mens and womens coverage rate of 44% and 40% is from 1997. All of the other coverage expressed as percentages (ie small and large firms) are from 1993. We only have the general data from the later survey so we used the latest we had for each catagory.

4. The reference to the change in tenure for older workers from 12 to 10 years is the result of a range of factors some of which is mobility and some earlier retirement. PBGC did not like using the fact to support mobility because of this. I talked to Cordelia Reimer about this and she said that she thought it was OK.

5. The statement that 2/3rds of lump sum distributions were not saved for retirement is lower than was shown in the 1993 data, which indicated 79%. We havae some unpublished later data from 1996 SIPP that is for workers 25 and older that shows 31% rolled over, hence the two thirds statement. The trend has been toward greater preservation so i think th e2/3rds is OK. I talked to Corky and she agreed.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 17:52:49.00

SUBJECT: Pensions -- URGENT re MEMBERS

TO: Dario J. Gomez (CN=Dario J. Gomez/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

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

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

CC: golding debra" (golding debra" @ pwba.dol.gov, "kramerich leslie" @ pwba.dol.gov, healy.monica @ pbgc.gov @ inet, kevin.maroney @ dol.gov @ inet, mark.iwry @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

TEXT:
I will provide comments, but one thing separately -- we need to build into this some major league sucking up to members of congress. We did it wrong last year at our pensions event and paid for it all year. So even though not all these folks will be at the event, we need to make sure that everyone is mentioned. (I plan to take all references to member names out of the fact sheet (since someone will be made whoever we pick for any issue and have the text of the VPs remarks be what we point to to show that these guys got stroked.) CHUCK -- THIS IS THE LIST I GOT FROM TREASURY. IT IS BROADER THAN YOURS. COMMENTS?

So, we need an acknowledgment section to the remarks:

in addition to whomever is in the room, Treasury advises that the list should include:

House: Chairman Rangel and Representatives Pomeroy, neal, Cardin, Colby, Portman and Johnson

Senate: Graham (D-FL), Grassley, and Jeffords.

You could add a sentence along the following lines:

"Pension policy has long been a bipartisan effort in Congress and we look forward to working with the leadership of Ways and Means and Finance Committees and the members from both parties in both houses who have been leaders on expanding pension coverage and portability, including: Chairman Rangel, Congressmen Pomeroy, Neal, Cardin, Colby, Portman and Johnson along with Senator Graham of Florida, and Senators Grassley and Jeffords."

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 10:00:48.00

SUBJECT: VP Briefing Memo

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

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

TO: MENCHIK_M (MENCHIK_M @ A1@CD@VAXGTWY [UNKNOWN]) (OMB)
READ:UNKNOWN

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

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

TO: paul.smith (paul.smith @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

TO: william.bortz (william.bortz @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

TO: donna.shackleford (donna.shackleford @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

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

TO: gillian.hunter (gillian.hunter @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

TO: lisa.andrews (lisa.andrews @ treas.sprint.com [UNKNOWN])
READ:UNKNOWN

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

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

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

TO: haacke-carl (haacke-carl @ dol.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

TEXT:
Attached is a preliminary draft of the VP memo. Feel free to edit, especially the stuff on interest group support. I thought it could be

easily summarized by issue, but by the time I was done, it was still way to complex. You might just want to summarize that there is support for various provisions, indifference to various provisions, and some opposition from business to some provisions.

Working group -- I need your comments on the fact sheet by 11:00 this morning. Comments on this as well, but that is the most important document.

Thanks all.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D51]MAIL40440344T.036 to ASCII,
The following is a HEX DUMP:

================= END ATTACHMENT 1 =================

February 10, 1999 -- DRAFT

MEMORANDUM TO THE VICE PRESIDENT

FROM:

RE: Pensions Event

Background:

For Americans to enjoy a comfortable retirement, they must be able to count on what some call the three legs of the retirement security stool: social security, individual savings, and private employer-based pensions. (We are not using the three-legged stool analogy here because some might suggest the Administration's private pension leg is far shorter than the dramatic proposals we have offered on social security and individual savings; however, it is a helpful way to think about the issue.) Thursday's event focuses on legislative proposals to strengthen the private employer pension system.

There is much good news to report about employer pensions. Over the last 25 years, the number of workers with a private pension has grown by 75 percent to more than 50 million and the total dollars set aside in private pension plans to support Americans' retirement has increased more than ten-fold to three-and-a-half trillion dollars.

The Administration has worked with Congress to make significant improvements in the private pension system, including legislation in 1996 (attached to the minimum wage bill) that brought about the most significant changes to the system in a decade. But we still have more to do to ensure that more Americans benefit from the retirement security that private pensions can bring.

Half of all American workers -- more than 50 million people -- have no pension plan at all. The problem is most acute for small business workers. Although businesses with less than 100 workers provide 40 million jobs, only 20% -- about 8 million of these employees -- get a pension from their employer. In comparison, 62% of workers in firms with 100 or more employees have pension coverage.

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. Those that women receive are worth less than those received by men. (Among new private sector pensions annuity recipients in 1993-94, the median annual benefit for women was $4,8000 or only half of the median benefit of $9,600 received by men.) And, even among those women who work, fewer women than men have pensions through work (40% compared to 44%), because many women work in part-time jobs or move in and out of the workforce.

An increasingly mobile workforce makes accumulating and managing retirement benefits more difficult. Between the ages of 18 and 32 alone, the average person holds 9 different jobs. The amount of time older workers have spent in their current job declined from 12 to 10 years between 1987 and 1998. Workers frustrated by keeping track of their various retirement accounts are tempted to cash out their retirement benefits and spend these all important savings on current consumption. Two-thirds of workers receiving a lump sum distribution from a pension plan do not roll over the distribution into retirement savings.

Administration Proposals:

The Administration proposals can be grouped into five categories:

- Expanding **coverage** by making it easier for small businesses to start private pension plans and easier for employees to save in IRAs through payroll deduction;
- Expanding **portability** by making it easier for workers to take their pensions when they change jobs and earn more quickly the right to vest in employer matching contributions;
- Increasing **women's retirement security** by requiring that time taken under FMLA counts toward vesting and that employers offer an option that would pay retirees' spouses a 75% annuity upon the employee's death;
- Expanding worker's **rights-to-know** about their pensions by requiring periodic statements and estimates of benefit values and providing spouses with information about how pension options affect their rights;
- Making pension plans **more secure** by ensuring effective audits **and simpler** through a host of streamlining changes.

Much of this package is not new; however, when we announced some of these proposals last year, they received virtually no mainstream media attention. The portability provisions are the major new element of the plan, along with a new addition to the list of incentives we provide for new plans to be created -- reduced PBGC premiums. In addition, while the President announced his support for the women's retirement security provisions last year, this is the first time the Administration has included them in its own legislative proposal.

Prospects for Passage:

In the past, pension reform has usually been part of a larger bill. Thus, the prospects for pension legislation depend in part on the availability and suitability of a legislative vehicle, such as a tax bill. Another difficulty is that some pension proposals fall under the jurisdiction of the tax-writing committees while others fall under the jurisdiction of the labor committees. Some proposals fall in both places.

Many of the proposals in the Administration's pension package are not very controversial and have a good chance of passage if an appropriate vehicle emerges. The major risk for the Administration is that legislation moves that includes the provisions that we support along with others which raise major concerns. Pensions policy requires a careful balance between sometimes competing goals of, on the one hand, promoting retirement savings and security, and, on the other hand, ensuring that the significant tax incentives provided are equitably distributed. There were major pension bills introduced in the Congress last year which raise some of these distributional questions.

Support and Opposition to Administration Proposals:

Support and opposition varies from item to item.

- **Expanding coverage**:
  - There is strong support in the small business community for a tax credit and simplified defined benefit plan (like our SMART plan) but many groups prefer the details of Republican proposals pending on the Hill.

- **Expanding portability:**
  - There is no apparent opposition to our provisions to allow rollovers between various types of plans (although our language is somewhat more restrictive in some cases than bills on the Hill);
  - Groups representing plan participants (like AAUP) support our proposal for faster vesting of employer contributions and industry opposition has been muted;
  - Teacher representatives (like the National Council on Teacher Retirement) strongly support our proposal to allow use of rollover benefits to buy service credits in state and local government plans; and
  - There will be little interest or opposition to our plans to allow immediate participation in the TSP for Federal employees, but there is a chance that critics of government, in general, could complain about enriching "taxpayer-funded benefits for bureaucrats."

- **Increasing women's retirement security:**
  - The Democratic leadership included similar provisions in their bill last year; Senator Carol Mosley-Braun and Rep. Kennelly were key proponents. Unclear who will emerge as leading spokespersons for women's pension issues with their departures from Congress.
  - Our proposal to require that time taken under FMLA count toward vesting requirements is supported by the National Partnership for Women and Families and the Older Women's League; there has been no overt opposition although some small business interests can be expected to quietly express their general resistance FMLA.
  - Our proposal to require that pension plans offer a 75% survivor annuity option is supported by AAUP and the women's community.

- **Expanding pension rights-to-know:**

- Participant groups (like AAUP) are supportive of these requirements but some business plan sponsors resist additional paperwork requirements. Women's groups especially support the disclosure of benefit options to spouses.

- **Pension security and simplification:**
    - The businesses that sponsor plans have strongly resisted the additional audit requirements in our bill although pension actuaries have supported the plan.
    - Labor general supports various simplification provisions dealing with multiemployer (collectively bargained) plans.
    - Other simplification provisions are also opposed by business groups; a few provisions have no opposition or real support.

Legislative Considerations:

Representative Pomeroy has been a leader on these issues and he is important to the Administration on social security. However, when we have embraced his proposals on pension issues in the past, Democratic members of the House Ways and Means Committee have been resentful that he gets credit for proposals that they must carry in the tax writing committees. Thus, Legislative Affairs advises that we be warm in our praise of Pomeroy but always balanced in offering similar praise for the Democratic leadership on the Ways and Means Committee (especially Rep. Rangel).[CHUCK BRAIN TO REVIEW]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sirkin.Stuart@pbgc.gov (Sirkin Stuart) (Sirkin.Stuart@pbgc.gov (Sirkin Stuart) [UNKNOWN])

CREATION DATE/TIME:10-FEB-1999 16:01:54.00

SUBJECT: RE: attached Q&A for VP

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

TEXT:
This is very good. One minor point. We do not believe that the ideas we are pushing to increase incentives should be characterized as a revision of the nondiscrimination rules -- the 415 benefit level proposal does not affect nondiscrimination and the 401a17 compensation increase affects nondiscrimination as a secondary affect. Revising nondiscrimination has a negative connotation and prejudices the ideas. Can you just delete the words "to revise the nondiscrimination rules." The deletion does not change the meaning of your sentence and it would make us happier. Thanks

----

From: Sarah_Rosen
To: Sirkin Stuart; Pacelli Jane; Gustafson David; Schub Judy; Healy Monica; Grant Joseph; Melissa_N._Benton; jane.molloy; hinzr; kramerich-leslie; lees; lindrewg; maroney-kevin; mcgahey-richard; watsons; montgomery-edward; holzer-harry; haacke-carl; william.bortz; lisa.andrews; mark.iwry; gillian.hunter; paul.smith; deborah.walker; harlan.weller; donald.wellington; Pieter_J._Boelhouwer%OVP; MENCHIK_M%A1%CD%VAXGTWY; Cordelia_W._Reimers; Laurence_R._Jacobson; Bruce_D._Long; donna.shackleford
Subject: attached Q&A for VP
Date: Wednesday, February 10, 1999 3:04PM

<>
I didn't focus on the policy details so much as message since he wont' be taking press questions. Feel free to edit if you want.

Group -- Last chance to correct me. ASAP.

Thanks.

(See attached file: penq&a.99)

--base64 encoded file (penq&a.99) attached...

------ Message Header Follows ------
Received: from gatekeeper.eop.gov by mail.pbgc.gov
(PostalUnion/SMTP(tm) v2.2 (Build 22005) for Windows NT(tm))
id AA-1999Feb10.150519.1484.48547; Wed, 10 Feb 1999 15:05:19 -0500
Received: from Ingate3.eop.gov by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM)
id AA24554; Wed, 10 Feb 1999 15:04:42 -0500

Received: by Ingate3.eop.gov(Lotus SMTP MTA SMTP v4.6 (462.2 9-3-1997)) id 85256714.006E4879 ; Wed, 10 Feb 1999 15:04:35 -0500
X-Lotus-Fromdomain: EOP
From: Sarah_Rosen@opd.eop.gov
To: Melissa_N._Benton@omb.eop.gov, jane.molloy@mail.doc.gov,
hinzr@pwba.dol.gov, kramerich-leslie@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,
haacke-carl@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, william.bortz@treas.sprint.com,
lisa.andrews@treas.sprint.com, mark.iwry@treas.sprint.com,
gillian.hunter@treas.sprint.com, paul.smith@treas.sprint.com,
deborah.walker@treas.sprint.com, harlan.weller@treas.sprint.com,
donald.wellington@treas.sprint.com, mark.iwry@treas.sprint.com,
Pieter_J._Boelhouwer%OVP@oa.eop.gov,
MENCHIK_M%A1%CD%VAXGTWY@oa.eop.gov,
Cordelia_W._Reimers@cea.eop.gov,
Laurence_R._Jacobson@omb.eop.gov, Bruce_D._Long@omb.eop.gov,
Melissa_N._Benton@omb.eop.gov, donna.shackleford@treas.sprint.com,
Pieter_J._Boelhouwer%OVP@oa.eop.gov
Message-Id: <85256714.006E1837.00@Ingate3.eop.gov>
Date: Wed, 10 Feb 1999 15:03:53 -0500
Subject: attached Q&A for VP
Mime-Version: 1.0
Content-Type: multipart/mixed;
Boundary="0__=EIjQxsGJsI3DUbmNbTdUAoa7mNTGVQbMPiebDhm5vjlaC4yhwxq9h6tU"

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 18:41:16.00

SUBJECT: Re: Pensions -- URGENT re MEMBERS

TO: Jeffrey K. Nussbaum (CN=Jeffrey K. Nussbaum/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

TO: Dan J. Taylor (CN=Dan J. Taylor/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

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

TEXT:
she's right. please add.
---------------------- Forwarded by Sarah Rosen/OPD/EOP on 02/10/99 06:42
PM ---------------------------

Healy.Monica @ pbgc.gov (Healy Monica)
02/10/99 06:26:54 PM
Record Type: Record

To: Sarah Rosen/OPD/EOP
cc:
Subject: Re: Pensions -- URGENT re MEMBERS

We assume you mean Kolbe (member identified with Social Security)

Others you might want to mention include:

Gejdenson who sponsored the Democratic House Leadership bill.
Bingaman who has been vocal on pension and retirement security issues.

From: Sarah_Rosen
To: Sarah_Rosen
Cc: pieter_j._boelhouwer%ovp; Dario_J._Gomez; Charles_M._Brain; "golding debra"; "kramerich leslie"; Healy Monica; kevin.maloney; mark.iwry
Subject: Re: Pensions -- URGENT re MEMBERS
Date: Wednesday, February 10, 1999 5:58PM

Sarah Rosen
02/10/99 05:52:19 PM

Record Type: Record

To: Pieter J. Boelhouwer/OVP @ OVP, Dario J. Gomez/WHO/EOP, Charles M. Brain/WHO/EOP

cc: golding debra" @ pwba.dol.gov, "kramerich leslie" @ pwba.dol.gov, healy.monica @ pbgc.gov @ inet, kevin.maroney @ dol.gov @ inet, mark.iwry @ treas.sprint.com @ inet
Subject: Pensions -- URGENT re MEMBERS (Document link not converted)

I will provide comments, but one thing separately -- we need to build into this some major league sucking up to members of congress. We did it wrong last year at our pensions event and paid for it all year. So even though not all these folks will be at the event, we need to make sure that everyone is mentioned. (I plan to take all references to member names out of the fact sheet (since someone will be made whoever we pick for any issue and have the text of the VPs remarks be what we point to to show that these guys got stroked.) CHUCK -- THIS IS THE LIST I GOT FROM TREASURY. IT IS BROADER THAN YOURS. COMMENTS?

So, we need an acknowledgment section to the remarks:

in addition to whomever is in the room, Treasury advises that the list should include:

House: Chairman Rangel and Representatives Pomeroy, neal, Cardin, Colby, Portman and Johnson

Senate: Graham (D-FL), Grassley, and Jeffords.

You could add a sentence along the following lines:

"Pension policy has long been a bipartisan effort in Congress and we look forward to working with the leadership of Ways and Means and Finance Committees and the members from both parties in both houses who have been leaders on expanding pension coverage and portability, including: Chairman Rangel, Congressmen Pomeroy, Neal, Cardin, Colby, Portman and Johnson along with Senator Graham of Florida, and Senators Grassley and Jeffords."

------ Message Header Follows ------

Received: from gatekeeper.eop.gov by mail.pbgc.gov
 (PostalUnion/SMTP(tm) v2.2 (Build 22005) for Windows NT(tm))
 id AA-1999Feb10.175634.1484.49132; Wed, 10 Feb 1999 17:56:34 -0500
Received: from lngate3.eop.gov by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM)
 id AA28373; Wed, 10 Feb 1999 17:56:08 -0500
Received: by lngate3.eop.gov(Lotus SMTP MTA SMTP v4.6 (462.2 9-3-1997)) id
85256714.007DFF33 ; Wed, 10 Feb 1999 17:56:13 -0500
X-Lotus-Fromdomain: EOP
From: Sarah_Rosen@opd.eop.gov
To: Sarah_Rosen@opd.eop.gov
Cc: pieter_j._boelhouwer%ovp@oa.eop.gov, Dario_J._Gomez@who.eop.gov,
 Charles_M._Brain@who.eop.gov, "golding debra"@pwba.dol.gov,
 "kramerich leslie"@pwba.dol.gov, healy.monica@pbgc.gov,
 kevin.maloney@dol.gov, mark.iwry@treas.sprint.com
Message-Id: <85256714.007DDF74.00@lngate3.eop.gov>
Date: Wed, 10 Feb 1999 17:55:29 -0500
Subject: Re: Pensions -- URGENT re MEMBERS
Mime-Version: 1.0
Content-Type: text/plain; charset=us-ascii

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 16:04:25.00

SUBJECT: Re: Gail Cousins remarks

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

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

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

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

TEXT:
fine by me but mark please review and make sure that the situation here
she describes would be helped by the portability proposals we adance.
thanks./

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-FEB-1999 16:01:40.00

SUBJECT: Re: attached Q&A for VP

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

CC: donna.shackleford (donna.shackleford @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: menchik_m (menchik_m @ a1 @ cd @ vaxgtwy [UNKNOWN]) (OMB)
READ:UNKNOWN

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

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

CC: gillian.hunter (gillian.hunter @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

CC: lisa.andrews (lisa.andrews @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

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

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

CC: haacke-carl (haacke-carl @ dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

CC: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: pieter j. boelhouwer (CN=pieter j. boelhouwer/O=ovp @ ovp [UNKNOWN])
READ:UNKNOWN

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

CC: paul.smith (paul.smith @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: william.bortz (william.bortz @ treas.sprint.com @ inet [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

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

TEXT:
Slightly revised Q&A attached. Added one short Q about how much the proposal will cost.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D44]MAIL438258445.036 to ASCII,
The following is a HEX DUMP:

================== END ATTACHMENT 1 ==================

THE PRESIDENT'S 1998 PENSION PACKAGE:
QUESTIONS AND ANSWERS
February 10, 1999

Q: What is new in this legislation? Isn't this simply repackaging of past year proposals?

A: While parts of this bill have been included in prior year proposals, two important aspects are new. First, the major portability provisions in this bill -- allowing rollovers between and among various types of plans -- are new. Representative Pomeroy has been a leader on this issue in the Congress, but Administration support for these provisions will significantly increase their chances of passage this year. Second, one of our highest priorities is finding ways to encourage small businesses to provide pension plan coverage to their employees. This year we added a significant new inducement -- dramatically lowering the cost PBGC premiums for new plans -- to other incentives that we have supported before: the tax credit and the new simplified plan known as the SMART plan.

Finally, I want to emphasize the significance of this announcement separate and apart from how "new" each legislative provision is. Thanks to the President's pledge to save social security and his new USA account proposal, the nation and our capital are engaged in thoughtful discussion about social security and increasing individual savings. But it is very important that we not ignore the third important element of retirement security -- private pension plans. This President understands the importance of all three elements of our retirement system and wants to make progress in all three areas this year.

Q: Isn't this pretty tepid stuff? Where is the Administration on the proposals by industry to revise the nondiscrimination rules to allow greater benefits to be paid to senior staff and thus induce more companies to start, maintain, or modernize defined benefit plans? PBGC head David Strauss has been promoting these proposals? Does the Administration support them?

There are many issues in the private pension system that are yet to be addressed. We are concerned that there appears to be diminished support for defined benefit plans among private employers. We are looking to see what the evidence suggests is really happening, to understand the consequences, and to consider ways to address problems. In his short tenure at PBGC, David Strauss has been a champion of providing workers with great retirement benefits through defined benefit plans. The Administration will be looking together at the issues David has raised and consider some of the proposals that have been advanced for the defined benefit system.

Q: What would your package do to increase pension security for women?

A: (1) The portability provisions will be of special importance to women who are more likely to move in and out of the workforce and change jobs. By making it easier for them to accumulate their retirement savings from various plans in one place, it reduce one temptation to liquidate and spend small retirement savings (with the resultant penalty) and encourage greater savings.

(2) Faster vesting in employer matching contributions for 401(k) plans will benefit women who are less likely than men to work for the same employer for as long.

(3) Counting Family and Medical Leave Act leave toward plan vesting will shorten the time for plan vesting for women who are most likely to take advantage of FMLA leave.

(4) Since women live longer, more women end up as widows, some relying upon a small survivor benefit from their husband's pension plan. By giving couples the option of a higher survivor benefit, more widows will be able to live comfortably after the death of their spouse. Moreover, by requiring that spouses get important information before they can waive their right to survivor benefits, we will ensure that choices about retirement options are informed.

(5) Fewer woman who work have pension coverage, often because they work part-time or for shorter periods of time. By allowing workers without an employer pension plan to save in an IRA through payroll deduction, it will make it easier for more women to save for their retirement.

(6) The new SMART plan will encourage more small businesses to start plans. Currently, more than 10 million women work for small firms that do not offer pension plans.

Q: Supporters of private pension plans criticize the Administration's USA Account proposal. They argue that instead of investing billions to make relatively small contributions to workers retirement savings, you should be investing in restoring the private employer pension system where employees can receive much more significant help toward building retirement security?

Individual savings versus private pensions is a false choice. American workers need social security, individual savings, and employer pensions for a comfortable and secure retirement. We must do what makes sense, as this package does, to make it easier for small businesses to provide private pensions for their workers; but, we also must recognize that some employees, especially lower-wage workers, do not have pensions and so we need to find a way to encourage retirement savings for these Americans too.

Q: Senator Roth has proposed a 401(k) version of his Roth IRAs -- a new kind of 401(k) plan, in which workers put after-tax dollars, but they can withdraw the money tax-free at a later date? What is the administration's view?

A: The Administration shares Senator Roth's goal of increasing individual savings for retirement. We look forward to working with him on pension issues and social security issues this year. In our view, the highest priority has to be increasing savings for those least able to save on their own, so that all Americans can look forward to dignity in their retirement years. The President's proposal to create USA Accounts will provide direct incentives to low and moderate income Americans to increase their savings.

[BACKGROUND: We think the Roth 401(k) plan has the wrong distributional effect. In essence, it provides greater tax benefits for savings to higher income workers. But Senator Roth has been temperate in his comments on the Administration's social security plan and we do not want to criticize his proposals or do anything to diminish our ability to work with him this year.]

Q: How much will the Administration plan cost?

A: Just slightly over one billion dollars over five years ($1.027 billion). The bulk of the cost is in the tax credit and new SMART plan proposals. The portability proposals have negligible revenue effects.

Q: What are the implications of today's proposals, and the President's social security and USA account proposals, for the Railroad Retirement System? Does president propose investing any funds in the Railroad Retirement trust fund in equities?

A: As you may know, the Railroad Retirement System is unique. First created before social security was in place, it really provides the equivalent of both social security (so called tier 1 benefits) and a private employer pension (so called tier 2 benefits).

Regarding the tier 1 system, just as we must ensure that social security is there for future generations, so too we must ensure that the railroad retirement system is there to meet the needs of future railroad retirees. Each year, the Social Security Administrator and the Railroad Retirement Board transfer money between Social Security and the Railroad Retirement trust funds to restore them to what their financial position would be if railroad workers had been covered by social security. In 1999, about $3.5 billion dollars will flow from Social Security to the Railroad Retirement system to pay for "social security equivalent" benefits and some funds will flow to the Railroad Retirement fund from Social Security through 2057. As a result, railroad retirees will benefit indirectly by ensuring that social security is solvent to make those transfers. At this time, there is no plan to invest any of the Railroad Retirement fund's holdings in equities. However, to the extent that the social security trust fund value is increased by limited equity investment of a fraction of the surplus, the railroad retirement system will benefit by ensuring social security's ability to make the transfer payments.

Regarding the tier 2 system, nothing in our private pension proposals today would change the benefits available to railroad retirement workers.

Q: How would the SMART be simpler than traditional defined benefit plans? Why would it be appealing to small businesses?

A: Simpler: SMART takes the advantages of traditional defined benefit pension plans and makes them available to small employers by:

- reducing the regulatory complexity;

- eliminating complex actuarial calculations
- making funding contributions more predictable than under a traditional defined benefit plan;
- lowering administrative costs; and
- reducing PBGC premiums.

Attractive to small businesses: Small business owners are often baby boomers, and not far from retirement age, when their business matures and is ready to support a pension plan. If the owner and his or her workers have not been covered by a retirement plan before, then setting up a defined contribution plan at this stage may be too late to really help them build up adequate retirement savings. A defined benefit plan makes more significant retirement savings available and offers workers and spouses a secure and predictable benefit for life. And it is backed up by PBGC insurance.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:10-FEB-1999 10:57:12.00

SUBJECT: Re: VP Talking Points

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

TEXT:
A few minor suggestions in the spirit of "making it easier" and accentuating the positive, not the negative:

In the first paragraph for Secy Rubin on p. 1, I'd suggest not saying "One area of major concern is the difficulty that small businesses have in providing pensions for their workers," but "One area of major concern is to make it easier for small businesses to provide pensions for their workers."

Similarly, in the third bullet under Small Businessman/woman on p. 1, soften the sentence beginning "The PBGC premium can be costly....," Instead, say something like "The PBGC premium can make some small businesses hesitate to start up a plan, especially since the amount can change dramatically from year to year."

In the last paragraph on p 6 (numbered (2)), say "Unfortunately, living alone is usually more than half as expensive" instead of "not always half as expensive."

On p 2, next to last bullet says 14 years, not 15.
On p 3, last sentence has a typo: should be $4,800, not $4,8000.

Otherwise, fine!

Sarah Rosen
02/09/99 08:07:34 PM
Record Type: Record

To: Sarah Rosen/OPD/EOP
cc: See the distribution list at the bottom of this message
bcc:
Subject: Re: VP Talking Points

CORRECTION! THe acknowledgment should be to Herman, not Alvarez. Sorry, I have been working on SBA stuff with Rubin and Alvarez and its ingrained.

Sarah Rosen
02/09/99 07:36:58 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: VP Talking Points

VP staff -- This is more detail than you wanted and probably geekier too. But I figure you can edit and cut more easily than making it up.

Pensions group == Let the VP folks make the english nice -- but can you tell me if any argument I made is wrong or dangerous or the emphasis should be shifted. COMMENTS ASAP PLEASE.

Liebman/Siewert -- Please review the references to social security and make sure they are okay.

Hand-outs and memo to VP and Q&As to follow. tks.

Message Sent
To:____

Melissa N. Benton/OMB/EOP
jane.molloy @ mail.doc.gov @ inet
hinzr @ pwba.dol.gov @ inet
kramerich-leslie @ dol.gov @ inet
lebowitza @ pwba.dol.gov @ inet
lees @ pwba.dol.gov @ inet
lindrewg @ pwba.dol.gov @ inet
maroney-kevin @ dol.gov @ inet
mcgahey-richard @ dol.gov @ inet
watsons @ pwba.dol.gov @ inet
montgomery-edward @ dol.gov @ inet
holzer-harry @ dol.gov @ inet
haacke-carl @ dol.gov @ inet
grant.joseph @ pbgc.gov @ inet
healy.monica @ pbgc.gov @ inet
schub.judy @ pbgc.gov @ inet
gustafson.david @ pbgc.gov @ inet
pacelli.jane @ pbgc.gov @ inet
sirkin.stuart @ pbgc.gov @ inet
william.bortz @ treas.sprint.com @ inet
lisa.andrews @ treas.sprint.com @ inet
mark.iwry @ treas.sprint.com @ inet
gillian.hunter @ treas.sprint.com @ inet
paul.smith @ treas.sprint.com @ inet

deborah.walker @ treas.sprint.com @ inet
harlan.weller @ treas.sprint.com @ inet
donald.wellington @ treas.sprint.com @ inet
mark.iwry @ treas.sprint.com @ inet
BEIER_D @ A1 @ CD @ VAXGTWY
MENCHIK_M @ A1 @ CD @ VAXGTWY
Cordelia W. Reimers/CEA/EOP
Laurence R. Jacobson/OMB/EOP
Bruce D. Long/OMB/EOP
Melissa N. Benton/OMB/EOP
miller-ranetta @ dol.gov @ inet
donna.shackleford @ treas.sprint.com @ inet
Pieter J. Boelhouwer/OVP @ OVP
Dan J. Taylor/OVP @ OVP
David W. Beier/OVP @ OVP
Jodi R. Sakol/OVP @ OVP
Jake Siewert/OPD/EOP
Jeff B. Liebman/OPD/EOP
Jonathan Orszag/OPD/EOP

Message Copied
To:

Melissa N. Benton/OMB/EOP
jane.molloy @ mail.doc.gov @ inet
hinzr @ pwba.dol.gov @ inet
kramerich-leslie @ dol.gov @ inet
lebowitza @ pwba.dol.gov @ inet
lees @ pwba.dol.gov @ inet
lindrewg @ pwba.dol.gov @ inet
maroney-kevin @ dol.gov @ inet
mcgahey-richard @ dol.gov @ inet
watsons @ pwba.dol.gov @ inet
montgomery-edward @ dol.gov @ inet
holzer-harry @ dol.gov @ inet
haacke-carl @ dol.gov @ inet
grant.joseph @ pbgc.gov @ inet
healy.monica @ pbgc.gov @ inet
schub.judy @ pbgc.gov @ inet
gustafson.david @ pbgc.gov @ inet
pacelli.jane @ pbgc.gov @ inet
sirkin.stuart @ pbgc.gov @ inet
william.bortz @ treas.sprint.com @ inet
lisa.andrews @ treas.sprint.com @ inet
mark.iwry @ treas.sprint.com @ inet
gillian.hunter @ treas.sprint.com @ inet
paul.smith @ treas.sprint.com @ inet
deborah.walker @ treas.sprint.com @ inet
harlan.weller @ treas.sprint.com @ inet
donald.wellington @ treas.sprint.com @ inet
beier_d @ a1 @ cd @ vaxgtwy
menchik_m @ a1 @ cd @ vaxgtwy

Cordelia W. Reimers/CEA/EOP
Laurence R. Jacobson/OMB/EOP
Bruce D. Long/OMB/EOP
miller-ranetta @ dol.gov @ inet
donna.shackleford @ treas.sprint.com @ inet
pieter j. boelhouwer/ovp @ ovp
dan j. taylor/ovp @ ovp
david w. beier/ovp @ ovp
jodi r. sakol/ovp @ ovp
Jake Siewert/OPD/EOP
Jeff B. Liebman/OPD/EOP
Jonathan Orszag/OPD/EOP

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D59]MAIL45780444N.036 to ASCII,
The following is a HEX DUMP:

================= END ATTACHMENT 1 =================

TALKING POINTS FOR
REMARKS OF THE VICE PRESIDENT
PENSION BILL ANNOUNCEMENT
February 11, 1999

Program Notes:

Secretary Rubin: Will discuss the importance of retirement savings and why we need to save more to plan for retirement. He will mention that retirement security includes social security, individual pensions, and individual savings. The President has a plan to save social security and has offered the new USA account proposal is a way to expand individual savings; and we're here today to discuss strengthening the private pension system to help ensure that nation's retirees have adequate resources for their golden years. One area of major concern is the difficulty that small businesses have in providing pensions for their workers.

- Although small businesses with less than 100 workers provide 40 million jobs, only about 8 million of these include a pension.
- The pension coverage rate for small businesses with less than 100 workers is less than 1/3 that of larger businesses.
- Two-thirds of private sector workers without pensions are employed by businesses with fewer than 100 workers.

Small Businessman/woman: Will discuss that their employees are their most valuable resource; to retain workers and reward them, many small business owners want to provide pension coverage. The Administration's initiatives will make it easier for small business owners to offer plans.

- Administration's proposal for the SMART plan -- a new simplified defined benefit-like plan for small business -- is more manageable.
- Administration's proposals to provide a tax credit for small businesses's administrative and educational expenses that provide employees a retirement plan will help many to get over the hurdle.
- The PBGC premium can be costly and since the amount can change from year to year dramatically, it is a deterrent to starting up a plan. The Administration's plan to reduce the basic premium and waive the variable rate premium for small businesses for the first five years of a plan will help encourage more small business owners to start retirement plans for their employees.

Secretary Herman: Will express special concerns about the retirement savings rates for women and low and moderate income workers. Will note that portability is a growing problem for an increasingly mobile workforce.

- Between ages of 18 and 32, the average person holds 9 different jobs.
- The amount of time older workers have spent in their current job declined from 12 to 10 years between 1987 and 1998.
- With shorter periods in any one job, many employees do not stay long enough to vest in the employer contribution to their plan, even though employer matching contributions typically are significant part of retirement savings (one-third of the value of total contributions -- for a total of $30 billion per year).

Woman (held many jobs, in and out of workforce): Will discuss the reality of women's work patterns by describing her history with numerous jobs and time off for children. How low levels of savings in numerous plans meant that she had to keep track of small amounts of money in various plans. Often left a job before she became eligible for employer contributions to a 401(k).

<u>Remarks by the Vice President:</u>

- Acknowledgments: Rubin, Alvarez, and PBGC Head -- David Strauss (former VP staff). Also members of Congress -- get guidance from Chuck Brain. (Note also reference to a few members in body of remarks on issues they have lead. Get Chuck to review.)

- Millions of American retirees enjoy a comfortable retirement because they can count on income from three sources: social security, individual savings and private employer pensions. We must continue to enhance Americans' retirement security by increasing access to all three sources of retirement income. President Clinton's budget addresses all three of these issues.

    - First, as you know, the President has made "saving **social security**" our number one priority. His proposal would keep the social security program solvent until 2055.
        - Transfer 62 percent of the projected budget surpluses over the next 14 years to Social security.
        - Invest a portion of transferred surpluses in private sector to achieve higher returns for social security -- just as any state or local government, or

private pension dos -- after working with Congress to ensure that the investments are made independently and without political interference.
- Make choices to save Social Security until 2075, while:
  - reducing poverty among elderly women -- particularly widows
  - eliminating confusing and out-dated earnings test so we stop discouraging work and earnings among older Americans.

- In addition, the President budget includes a new tax credit proposal to promote **individual savings**:
  - New tax credit to fund universal savings accounts (USA Accounts): Dedicate 12% of the projected surpluses to create USA accounts so all working Americans can build wealth to meet their retirement needs.

- But we are here today to talk about the Clinton/Gore administration's initiatives to help strengthen the **private employer pension system**. Retirees that can count on a private pension in addition to social security and personal savings enjoy the most secure retirement. For many retirees, private pensions make the difference between simply getting by and fully enjoying their "golden years."

- There is much good news to report about employer pensions. Over the last 25 years, the number of workers with a private pension has grown by 75 percent to more than 70 million and the total dollars set aside in private pension plans to support Americans' retirement has increased more than ten-fold to three-and-a-half trillion dollars.

- But, as you heard, there are many more Americans who could benefit from employer-sponsored retirement plans.
  - Half of all American workers, more than 50 million people, have no pension coverage at all. The problem is most acute for workers in small businesses. Although small businesses with less than 100 workers provide 40 million jobs, only about 8 million of these employees get a pension from their employer.

- In particular, many more women could benefit from private pensions.
  - among current retirees, women have much 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.
  - pensions received by women are worth less than those received by men. Among new private sector pensions annuity recipients in 1993-94, the median annual benefit for women was $4,8000 or only half of the median benefit of $9,600 received by men.

- And, even among those women who work, fewer women than men have pensions through work (40% compared to 44%), because many women work in part-time jobs or move in and out of the workforce.

- In addition, too many people have to keep track of many different retirement accounts, leaving workers frustrated and tempted to cash out their retirement benefits and spend these all important savings on current consumption. Employers too are frustrated by not being able to provide the pension portability employees seek.

- The Clinton/Gore Administration supports legislation to strengthen the private pension system, by expanding coverage, especially for women, improving portability, expanding worker-right-to-know provisions for workers and spouses; simplifying the pension system, and making retirees' pensions safer and more secure.

- The Administration's proposals build on past initiatives that have expanded pension coverage, made pensions more secure, and simplified pension plan administration, including:.
    - The Taxpayer Relief Act of 1997, which included a number of provisions supported by the President, including IRA provisions.
    - The minimum wage bill in 1996, which included the most significant pension legislation in 10 years, including the creation of the SIMPLE, a defined contribution plan that has brought thousands of employers and their workers into the pension system.
    - The Retirement Protection Act of 1994, which strengthened the Pension Benefit Guaranty Corporation's ability to protect workers' pensions and address underfunded plans.

- Specifically, this year's legislative package will include the following provisions:

    - First, our package will **expand pension coverage** by making it easier for business, especially small business, to provide pension coverage to their employees. We do this by:
        - (1) providing a tax credit to small businesses that start up new pension plans. This should increase pension coverage for some of the more than 20 million small business employees whose employers currently offer no pension plan;
        - (2) Our legislation would create a new simplified defined benefit plan, known as the Secure Money Annuity or Retirement Trust or the SMART plan. (This proposal builds on the bipartisan SAFE proposal, which is the work of Reps. Earl Pomeroy of N.Dak. and Nancy Johnson of CT, among others) A few years ago, we worked

with Congress to create the SIMPLE plan -- a new simplified defined contribution plan (like a 401(k)). But there is no comparable small business alternative for employers who want to offer their employees the kind of benefits available under a defined benefit plan -- a guaranteed annual benefit for life.

- (3) To further encourage small businesses to start new defined benefit plans for their workers, during the first five years of a new small business plan, the Pension Benefit Guaranty Corporation will lower its annual premium of $19 per participant to only $5 per participant and eliminate the variable rate premium that is charged for plan underfunding.
- (4) To encourage the formation of new defined benefit plans for larger employers, the PBGC will also phase in the variable rate premium for businesses that start new defined benefit plans.
- (5) Finally, to make it easier for workers to make contributions to Individual Retirement Accounts (IRAs), the legislation would encourage employers to offer employees payroll deduction contributions to IRAs. Contributions of up to $2000 to an IRA through payroll deduction generally would be excluded from an employee's income. This will make it easier for individuals to use the savings mechanism of employer payroll deduction to increase their own retirement savings.

- A second key aspect of the Administration's legislation are provisions designed to enhance **pension portability**. ***I want especially to note the extraordinary leadership of Rep. Pomeroy on these portability issues.***

(1) Currently, employer matching contributions to, for example, a 401(k) plan, only need vest after 5 years (or 7 years if vesting is phased in). If an employee switches jobs after 4 years, she looses all of those employer matching contributions. The vesting requirement has a disproportionate adverse impact on female employees who tend to have shorter job tenure. Under the Administration's proposal, 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).

(2) In addition, the administration will support legislation to permit rollovers between a host of different types of retirement plans, including:

- rollovers between qualified retirement plans (like 401(k)s) and tax-sheltered annuities and visa versa;
- rollovers of IRAs into workplace retirement plans;
- rollovers between certain plans of state and local governments to IRAs;

- rollovers of after-tax contributions to new plans; and
- rollovers from private plans into the federal government's thrift savings plan for federal employees.

(3) In addition, we will be allowing, for the first time, new federal employees to begin contributing immediately to the Thrift Savings Plan and matching those contributions immediately. The federal government should be a role model for employers making it as easy as possible for our employees to save for their retirement.

(4) Finally, we will allow employees of state and local governments to use funds in their retirement plans to purchase service credits in new plans without a taxable distribution. For teachers especially, who often move between state and school districts in the course of their careers, this will allow them to more easily earn a pension reflecting a full career of employment in the state in which they end their career.

- Third, the Administration's legislation will include two provisions for which the President announced his support last November -- provisions that should help to **improve retirement security for women.**

  (1) The first would allow workers to count the time taken under the Family and Medical Leave Act toward their retirement plan vesting. We want to make sure that employees that take time off to meet the needs of their family (like a newborn or sick child) do not loose pension rights because they do. Coupled with our provision to require fasting vesting, women who often have shorter tenure in any one job will be less disadvantaged by the pension system.

  (2) The second provision would provide added benefit security for widows and widowers by requiring pension plans to offer a 75% joint and survivor annuity option to plan participants. Currently, 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 pays a lower pension benefit, but it would continue paying 50% of the amount after their death to their surviving spouse. Today, over 60% of couples select a joint and survivor annuity when given the opportunity. Unfortunately, living alone is not always half as expensive. 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. Nothing would require the couple to take this option, but it would provide another choice. The higher survivor annuity amount would be especially helpful

for widows. A woman at 65 today can expect to live three years more than a comparable man, but elderly women have incomes below the poverty level at nearly twice the rate of men.

- A fourth component of our package will expand workers **"right-to-know" about their own pensions**. As I mentioned above, certain plans require that the pension be provided in the form of the joint and survivor annuity benefit unless the spouse waives that right. However, spouses do not always understand what rights it is that they are waiving. Our proposal would require that the spouse is told about their right to, and the amount of, the survivor benefit so that they can make an informed choice. We also propose that annual benefit statements be provided to all plan participants with account balances and estimated annual pension benefits. We believe that people would save more if they understood how much or how little they already are entitled to and can see how their benefits can grow.

- Finally, our legislative package will include a variety of provisions that we have supported in the past to **strengthen the security of workers' retirement savings** and **simplify the pension system**. Of these, I especially want to note that importance of the proposal to improve the quality of audits of pension plans to ensure that the retirement savings of workers are being properly managed and invested.

- WRAP -UP!

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-FEB-1999 17:31:07.00

SUBJECT: Re: Two issues -Reply -Reply

TO: robert f. schoeni (CN=robert f. schoeni/OU=cea/O=eop@eop [CEA])
READ:UNKNOWN

TO: larry r. matlack (CN=larry r. matlack/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

TO: michael.barr@ms01.do.treas.sprint.com> < (michael.barr@ms01.do.treas.sprint.com> < [UNKNOWN])
READ:UNKNOWN

TO: "fromanm%dom3.dopo5" ("fromanm%dom3.dopo5" [UNKNOWN])
READ:UNKNOWN

TO: "arnoldt%dom3.dopo5" ("arnoldt%dom3.dopo5" [UNKNOWN])
READ:UNKNOWN

TO: "mikrutj%dom13.dopo7" ("mikrutj%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "ellisp%dom13.dopo7" ("ellisp%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "delavinal%dom13.dopo7" ("delavinal%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "cilkej%dom13.dopo7" ("cilkej%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "talismanj%dom13.dopo7" ("talismanj%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "richardsond%dom13.dopo7" ("richardsond%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "nunnsj%dom13.dopo7" ("nunnsj%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "lubickd%dom13.dopo7" ("lubickd%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "hunterg%dom13.dopo7" ("hunterg%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "doranm%dom13.dopo7" ("doranm%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "burmanl%dom13.dopo7" ("burmanl%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: jeff b. liebman (CN=jeff b. liebman/OU=opd/O=eop@eop [OPD])
READ:UNKNOWN

TO: joanne cianci (CN=joanne cianci/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

TO: "nisancid%dom3.dopo5" ("nisancid%dom3.dopo5" [UNKNOWN])
READ:UNKNOWN

TO: "cohena%dom3.dopo5, " ("cohena%dom3.dopo5, " [UNKNOWN])
READ:UNKNOWN

TO: "rebeleinr%dom13.dopo7" ("rebeleinr%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "fantw%dom13.dopo7" ("fantw%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "dworinl%dom13.dopo7" ("dworinl%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "cumbyr%dom13.dopo7" ("cumbyr%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "walkerd%dom13.dopo7" ("walkerd%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "smithpa%dom13.dopo7" ("smithpa%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "plattj%dom13.dopo7" ("plattj%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "mcclellanm%dom13.dopo7" ("mcclellanm%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "iwrym%dom13.dopo7" ("iwrym%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "eichnerm%dom13.dopo7" ("eichnerm%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: "carrollr%dom13.dopo7" ("carrollr%dom13.dopo7" [UNKNOWN])
READ:UNKNOWN

TO: Jack A. Smalligan (CN=Jack A. Smalligan/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:
(Actually there are three headings below.)

Annuitization

I think that the default option should be annuitization, a la TSP, with a joint and 75% survivor distribution option as the default for those who are married when they retire.

Since the goal of the program is retirement *income*, annuitization makes good sense. Initially providing the annuities through a TSP-like body (or through PBGC initially, until the USA program is big) handles the serious imperfections in the annuities market. (Incidentally, such imperfections probably hurt the poor more than the non-poor, since the poor usually don't have as good access to efficient financial institutions.) In time, though, the annuity market might improve and default federal provision of annuities can be dropped.
By "default" I mean that it would take a powerful statement (signed by both the employee and spouse) to choose another alternative. Perhaps there would also have to be a waiting period before this statement can be submitted, to encourage thoughtful consideration. Parallels and experience abound in the law/regs for private pensions.
But I think that a lump sum at retirement should also be *allowed*, assuming the hurdles to it that I've suggested. It's another case of "easier out, easier in" for voluntary savings. Admittedly, a lot of lump sum pension distributions upon retirement are used to buy long RVs, but some are to start businesses. Knowing that there is a potential lump sum to open a business or to travel can encourage contributions earlier.
Also, *not* allowing lump-sum withdrawals can implicitly promote semi-nasty market alternatives, such as the viatical "deals" for the early terminally ill.
The joint and 75% survivor default distribution applies the Administration's women's pension policies. Twenty years from now, if poor widows are still a problem, this default distribution can help.

Interaction with Means-Tested Programs

I agree with what Joanne and Jack said but, with my pension perspective, I come at it from a different direction.

Not making the USA wealth countable for means-tested programs can lead to certain policy problems:

There is a risk of USA being a tax-favored and federally matched "checking account." Most people who work hard & play by the rules use ordinary savings for long-term unemployment and heavy medical expenses. Or at least they would say that they should not be eligible for a subsidy if they have savings that they are *not* using for such needs.
If pre-retirement USA distributions are allowed for heavy medical expenses or extended unemployment, then it would be even more illogical not to count USA wealth for program eligibility.

Debt Collection and Legal Judgments

I'm far from expert on this, but I believe that *in the case of criminal activity* recent thinking at DOJ (and a recently enacted law), somewhat limit the protection that private pensions provide from debt collection, especially through legal judgments. Criminals (both organized and un-) have used pensions to shelter their wealth, often even from their spouses. Does someone know more about the thinking on this? (In non-criminal cases, I think that USA accounts should get the same protection from debt collection as 401(k) accounts now have.)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-MAR-1999 16:36:40.00

SUBJECT: Re: Moynihan Drafting Cash Balance -Reply

TO: "IWRYM%DOM13.DOPO7" <MARK.IWRY ("IWRYM%DOM13.DOPO7" <MARK.IWRY @ MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TEXT:
would it be timely to schedule a working group discussion on this issue for next week?

Also -- I know you guys are swamped with social security, but where are we on the issue paper on the PBGC proposals and on drafting legislation for our package? We are getting requests for language on the parts that are cleared and it is weird not to share. Would be nice to send a package of leg language up.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:12-MAR-1999 16:47:06.00

SUBJECT: Women and pensions

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

TEXT:
---------------------- Forwarded by Sarah Rosen/OPD/EOP on 03/12/99 04:49 PM ---------------------------

Jeff B. Liebman
02/03/99 06:33:37 PM
Record Type: Record

To: Sarah Rosen/OPD/EOP
cc:
Subject: Women and pensions

---------------------- Forwarded by Jeff B. Liebman/OPD/EOP on 02/03/99 06:34 PM ---------------------------

Emil E. Parker
10/16/98 06:22:17 PM
Record Type: Record

To: Jeff B. Liebman/OPD/EOP, ORSZAG_J @ A1@CD@VAXGTWY @ VAXGTWY
cc:
Subject: Women and pensions

Attached are a one-plus page document describing the two women's pension initiatives and the Administration's pension accomplishments document we used for the SAVER Summit last June.

The key agency pension contact people are as follows:

Treasury

Mark Iwry (Benefits Tax Counsel):	622-0170
Don Wellington:	622-1332
Harlan Weller:	622-1001
Bill Bortz:	622-1352

PBGC

Judy Schub: 326-4002
Stu Sirkin: 326-4080 (extension 3163)

Labor

Meredith Miller (DAS at PWBA): 219-8233
Richard Hinz (research guru): 219-4505

I am sending the paper on the two new initiatives over to Iwry and Sirkin for fact-checking; I will ask them to get back to Jeff Liebman with comments.

I'm not sure detailed Q and As are required, given the relatively modest nature of the initiatives and the size of the contemplated packet, but if you think them necessary, Treasury will be able to put them together fairly quickly.

Please see below for the e-mail and fax list for the full pension group. I believe Doug Elmendorf handles pensions for CEA, although he has yet to attend a pension group meeting.

Larry R. Matlack/OMB/EOP
Mark D. Menchik/OMB/EOP
Jonathan A. Kaplan/OPD/EOP
Judy Schub @ 326-4016 @ fax
Alan Lebowitz @ 219-6531 @ fax
Richard Hinz @ 219-5333 @ fax
Stephen Lee @ 219-4745 @ fax
Kevin Maroney @ 219-5120 @ fax
Joseph Grant @ 326-4016 @ fax
Meredith Miller @ 219-5526 @ fax
Robert Doyle @ 219-7291 @ fax
Stuart Sirkin @ 326-4085 @ fax
Mark Iwry @ 622-0646 @ fax
Monica Healy @ 326-4016 @ fax
David Gustafson @ 326-4085 @ fax
Jane Malloy @ 482-0325 @ fax
Melissa N. Benton/OMB/EOP
Morley A. Winograd/OVP
Charles R. Marr/OPD/EOP
Joseph F. Lackey Jr./OMB/EOP

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D4]MAIL458618779.036 to ASCII,
The following is a HEX DUMP:
================== END ATTACHMENT 1 ==================

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D4]MAIL46861877A.036 to ASCII,
The following is a HEX DUMP:

================== END ATTACHMENT 2 ==================

PRESIDENT CLINTON TAKES NEW STEPS TO IMPROVE RETIREMENT SECURITY FOR WOMEN

JOINT AND 3/4 SURVIVOR ANNUITY OPTION. Currently defined benefit plans are required to offer only a joint and 50 percent survivor annuity option, under which the pension benefit to the surviving spouse is reduced by 50 percent if the participant/ex-employee dies first. Many couples would likely prefer an option that provides a relatively smaller benefit to the couple while both are alive but a larger benefit to the surviving spouse (non-participant).

- Under the President's proposal, plans would have to offer an option that provides a survivor benefit equal to at least 75 percent of the benefit the couple received while both were alive.
- Participants would not be required to elect this option.

A couple could still choose a single life annuity (under which the benefit ends when the participant dies) or a joint and 50 percent survivor annuity -- provided their plan continues to make the joint and 50 percent option available.

- This proposal should have a disproportionately positive impact on women, given their longer life spans and the related concentration of elderly poverty among women.

In 1996, the poverty rate for women 65 and over was 13.6 percent, compared to 6.8 percent for men 65 and over and 13.7 percent for all persons. For women 75 and over the poverty rate was even higher, 16.3 percent as opposed to 8.5 percent for men

Counting FMLA time toward pension vesting and participation requirements. This proposal would allow workers to count toward pension vesting and participation requirements time taken off under the Family and Medical Leave Act (FMLA).

Background: Currently employee contributions to, for example, 401(k) plans are immediately vested. Employer matching contributions, however, are subject to the general vesting requirements applicable to defined benefit pension plans: 5 years for cliff vesting, under which a worker is either fully vested or not vested at all, and 7 years for graded vesting, under which vesting is phased in starting with year 3 and ending with year 7. If employer matching or other contributions vest after 5 years, an employee who switches jobs after four years loses all of those employer contributions. The vesting requirement has a disproportionately adverse impact on female employees, who tend to have shorter job tenure.

Individuals generally must work 1,000 hours in a year for that year to count toward the 5-year (cliff) or 3-7 year (graded) vesting thresholds.

- This measure would ensure that workers do not lose a year of vesting solely because of time taken under FMLA due to, for example, illness or childbirth.

Loss of a year of vesting can be critical, since under current law __ percent of workers leave their jobs before becoming vested in the pension plan. [Richard Hinz may be able to provide this data; I asked him to look into this.]

THE ADMINISTRATION'S RECORD ON SAVINGS

The pension proposals in the President's FY 1999 budget would promote pension plans among small businesses, where pension coverage is particularly low, by providing a tax credit to small firms that establish pension plans and by creating an easy-to-administer defined benefit plan for small businesses.

The Administration's new pension package would also encourage those employers who do not offer a pension plan to give workers the option of contributing to individual retirement accounts (IRAs) through payroll deduction, and would promote pension portability by shortening the vesting period for employer 401(k) and other matching contributions. These new proposals build on past Presidential initiatives that have expanded pension coverage, made those pensions more secure and simplified pension plan administration.

- **PENSION REFORMS OF 1997.** The Taxpayer Relief Act of 1997 included a number of provisions supported by the President that will promote retirement savings, such as the following:

  - **Broadens the availability of IRAs in various ways.** Doubles the thresholds for phasing out deductible IRA contributions, from the prior law $25,000 for singles and $40,000 for couples to $50,000 for singles and $80,000 for couples.

- **PENSION REFORMS OF 1996.** In 1996, President Clinton proposed the Retirement Savings and Security Act containing a variety of pension coverage, portability and security initiatives. Later that year, the President signed the minimum wage bill, which included many of these pension provisions. The law, which represented the most significant pension legislation in ten years, made the following improvements in the private pension system:

  - ***Expands Pension Coverage by Creating a New Small Business 401(k)-type Plan*** *with no red tape and a simple short form to make it easier for small businesses to provider workers with pensions. The President first proposed his small business pension plan in June 1995 at the White House Conference on Small Business. The bill also* ***simplifies pensions for businesses of all sizes*** *as recommended by Vice President Gore's Reinventing Government initiative and first proposed in June 1995.*
  - ***Increases Pension Portability by Taking Away the 1-year Wait to Save at a New Job.*** *Amends the law that previously*

encouraged employers to make new employees wait a year before they can join a 401(k) plan.

- **Protects Government Employees' Savings from Orange County-Style Fiascos.** Requires State and local government retirement savings plans to be held in trust so that employees do not lose their savings if the government declares bankruptcy, as Orange County did.
- **Improves Spousal Protections.** In accordance with the minimum wage legislation, the Treasury Department has helped protect spousal benefits in the choice of an annuity and during divorce proceedings by issuing sample language, written in plain English, that retirement plans can give spouses and others to clarify what spouses' rights and benefits are.
- **Expands access to 401(k) plans.** The legislation makes 9 million employees of non-profit organizations, as well as employees of Indian tribes, eligible to participate in 401(k) plans.
- **Increases pension coverage for relatives working in family businesses.** The repeal of the family aggregation rule makes it easier for relatives who work in family businesses to earn their own retirement benefits.
- **Promotes portability for veterans.** The legislation changes tax rules to ensure that veterans on active duty can continue their pension coverage when their service ends.

\- **THE RETIREMENT PROTECTION ACT OF 1994.** In December 1994, President Clinton signed the Retirement Protection Act, which protects the benefits of more than 40 million American workers and retirees in traditional pension plans.

- The Act helped to bring about the Pension Benefit Guaranty Corporation's (PBGC) first surplus in its 22-year history.
- The Act strengthened funding rules for underfunded plans; enhanced PBGC's compliance authority; required underfunded plans that pose the greatest risk to pay their fair share for protections; and ensured that workers in underfunded plans get an easy-to-understand notice about their plan's funding level and PBGC guarantees.

\- **THE 401(k) ENFORCEMENT PROJECT.** In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering to date just over $20 million for over 40,000 workers.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: "WALKERD%DOM13.DOPO7" <DEBORAH.WALKER@MS01.DO.treas.sprint.com> ("WALKERD%DOM13.DOPO7" <DEBORAH.WALKER@MS01.DO.treas.sprint.com> [UNKNOWN])

CREATION DATE/TIME:20-MAR-1999 16:53:05.00

SUBJECT: Re: Pensions Working Group -Reply

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles R. Marr (CN=Charles R. Marr/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TO: Carl Haacke (CN=Carl Haacke/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

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

TO: "ANDREWSL%DOM3.DOPO5" <LISA.ANDREWS@MS01.DO.treas.sprint.com> ("ANDREWSL%DOM3.DOPO5" <LISA.ANDREWS@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "WELLERH%DOM13.DOPO7" <Harlan.Weller@MS01.DO.treas.sprint.com> ("WELLERH%DOM13.DOPO7" <Harlan.Weller@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "SHACKLEFORDD%DOM13.DOPO7" <DONNA.SHACKLEFORD@MS01.DO.treas.sprint.com> ("SHACKLEFORDD%DOM13.DOPO7" <DONNA.SHACKLEFORD@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "IWRYM%DOM13.DOPO7" <MARK.IWRY@MS01.DO.treas.sprint.com> ("IWRYM%DOM13.DOPO7" <MARK.IWRY@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "BURMANL%DOM13.DOPO7" <LEONARD.BURMAN@MS01.DO.treas.sprint.com> ("BURMANL%DOM13.DOPO7" <LEONARD.BURMAN@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

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

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

TO: OA5@sprint.com (OA5@sprint.com [UNKNOWN])
READ:UNKNOWN

TO: "WELLINGTOND%DOM13.DOPO7" <DONALD.WELLINGTON@MS01.DO.treas.sprint.com> (
"WELLINGTOND%DOM13.DOPO7" <DONALD.WELLINGTON@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "SMITHPA%DOM13.DOPO7" <PAUL.SMITH@MS01.DO.treas.sprint.com> ("SMITHPA%DOM13.DOPO7"
<PAUL.SMITH@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "RICHARDSOND%DOM13.DOPO7" <DAVID.RICHARDSON@MS01.DO.treas.sprint.com> (
"RICHARDSOND%DOM13.DOPO7" <DAVID.RICHARDSON@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "HUNTERG%DOM13.DOPO7" <Gillian.Hunter@MS01.DO.treas.sprint.com> ("HUNTERG%DOM13.DOPO7"
<Gillian.Hunter@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TO: "BORTZW%DOM13.DOPO7" <WILLIAM.BORTZ@MS01.DO.treas.sprint.com> (
"BORTZW%DOM13.DOPO7" <WILLIAM.BORTZ@MS01.DO.treas.sprint.com> [UNKNOWN])
READ:UNKNOWN

TEXT:
Date: 03/20/1999 04:43 pm (Saturday)
From: Deborah Walker
To: DOM13.DOPO7(BORTZW, BURMANL, HUNTERG, IWRYM, RICHARDSOND,
SHACKLEFORDD, SMITHPA, WELLERH, WELLINGTOND),
DOM3.DOPO5(ANDREWSL), EX.MAIL("kramerich-leslie@dol.gov",
"Bruce_D._Long@omb.eop.gov", "Carl_Haacke@opd.eop.gov",
"Charles_R._Marr@opd.eop.gov", "Cordelia_W._Reimers@cea.eop.gov",
"David_W._Beier%OVP@oa.eop.gov",
"Douglas_D._McCormick@omb.eop.gov", "grant.joseph@pbgc.gov",
"gustafson.david@pbgc.gov", "healy.monica@pbgc.gov",
"hinzr@pwba.dol.gov", "holzer-harry@dol.gov",
"jane.molloy@mail.doc.gov", "Laurence_R._Jacobson@omb.eop.gov",
"Lebowitz-Alan@dol.gov", "lees@pwba.dol.gov",
"lindrewg@pwba.dol.gov", "Lisa_B._Fairhall@omb.eop.gov",
"Mark_D._Menchik@omb.eop.gov", "maroney-kevin@dol.gov",
"McGahey-Richard@dol.gov", "Melissa_N._Benton@omb.eop.gov",
"montgomery-edward@dol.gov", "Natasha_F._Bilimoria@opd.eop.gov",
"pacelli.jane@pbgc.gov", "Pieter_J._Boelhouwer%OVP@oa.eop.gov",
"Sarah_Rosen@opd.eop.gov", "schub.
Subject: RE: Pensions Working Group -Reply

Based on Leslie's email and an earlier conversation with don, I am
concerned that you might not have gotten this last night. The is the draft
testimony currently in clearance here.
- att1.unk=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D4]ARMS11395498V.036 to ASCII,
The following is a HEX DUMP:

================= END ATTACHMENT 1 =================

G:\BTC\Testimony\3 19 99 5 pm clearance tsty draft.wpd

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 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. 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.

<u>The President's Proposals</u>

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 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.

<u>Improving coverage and participation, particularly for low-income and part-time workers and women</u>

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.

<u>Coverage of lower wage workers and Universal Savings Accounts</u>

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.

<u>Small business tax credit for expenses of starting a new retirement plan</u>

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.

<u>Promoting IRA Contributions through payroll deduction</u>

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 fax 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 premiums.

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]

<u>Improving Benefits for Workers</u>

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.

<u>Nondiscrimination Rules</u>

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 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 under 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 forfeit their benefits.

<u>401(k) Safe Harbor</u>

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.

<u>Effect of Increased Contribution and Benefit Limits on Middle- and Lower-Income Workers</u>

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 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.

<u>Increases in IRA and Salary Reduction Contribution Limits</u>

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 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 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 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 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 correctly 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.