RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Schub Judy <Schub.Judy@PBGC.GOV> (Schub Judy <Schub.Judy@PBGC.GOV> [UNKNOWN])

CREATION DATE/TIME:28-JUL-1999 17:25:22.00

SUBJECT: Multiemployer Proposals

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

CC: Sirkin Stuart <Sirkin.Stuart@PBGC.GOV> (Sirkin Stuart <Sirkin.Stuart@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

CC: Healy Monica <Healy.Monica@PBGC.GOV> (Healy Monica <Healy.Monica@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

CC: Pacelli Jane <Pacelli.Jane@PBGC.GOV> (Pacelli Jane <Pacelli.Jane@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

CC: Strauss David <Strauss.David@PBGC.GOV> (Strauss David <Strauss.David@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

TEXT:

As you know our views on raising limits, it should come as no surprise that we think raising the early retirement dollar limits for multis is reasonable. However, it would create some inequities, since many workers in single employer private plans do "physical" jobs also and can be hit if they retire early.

On aggregation, I checked with someone at PBGC who has done a lot of work with multis. He thinks that the plan aggregation rules are a "major administrative headache" mainly because employers do not want to share key information (such as salaries) with the unions.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-JUL-1999 15:34:15.00

SUBJECT: Re: PBGC letter on pension reversion proposal

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

CC: oscar gonzalez (CN=oscar gonzalez/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

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

CC: james j. jukes (CN=james j. jukes/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

TEXT:
My recommendation is to note that there was an actual veto on something similar in the 1995 Reconciliation bill (this being one of the reasons given) and that the same concerns arise here. Thus, we are not issuing a new veto threat, per se, but an implied one. OMB will have to decide what that means for clearance process issues.

I will send you all a revised version of the ltter with my edits.

Mark M. -- Can you get me a copy of what we said in the veto statement in 1995. tks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-JUL-1999 15:27:28.00

SUBJECT: PBGC letter on pension reversion proposal

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

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

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

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

TEXT:
I apologize for being late in joining this morning's conference call and having to drop off before the end. I understand the group discussed PBGC's pension reversion letter and that there was general agreement on including a PBGC veto threat as well as making certain other changes (in addition to the ones that Oscar had already forwarded to you). At your convenience, please forward to Oscar and me a mark up of the letter reflecting the changes agreed to in the conference call. If my understanding about the inclusion of a veto threat is correct, the letter will need to be vetted with OMB policy officials and through the West Wing . LR will coordinate with OMB LA to get the necessary sign-offs. Call me if you have questions.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:30-JUL-1999 14:29:40.00

SUBJECT: PBGC Letter on Rep. English Pension Reversion

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

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

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

TEXT:
Sarah wrote:

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

I agree

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

See above.

(3) The final sentence of the last paragraph should read: "In 1995, the President vetoed the Budget Reconciliation
Act (H.R. 2491). [He cited as one basis for the veto,] His veto message condemned the provision[s] of that bill that would have allowed employers to take assets from a defined benefit pension plan and use them for other purposes. The same concerns are prompted by this proposal."

See above.

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

OK

Oscar: You may now have the only complete copy. Please check it again.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-AUG-1999 22:20:17.00

SUBJECT: 8:00 memo

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

TEXT:
Financial Modernization: The conference committee holds its first meeting at 3:00 today. We expect it to be largely ceremonial. Chairman Leach believes that the meeting will consist of his appointment as chairman and opening statements. The conference committee is huge. The entire Senate Banking Committee and 14 members each from the House Banking and Commerce Committees, along with various members appointed only for purposes of specific provisions. Treasury has provided a statement to Senator Sarbanes and Representative LaFalce to read regarding their understanding of the Administration's position on various issues. (We cleared on the statement last week.)

Child Labor Convention: The package has been cleared by all NSC offices and goes to Berger tomorrow morning. Per Staff Secretary, if we want to get this out before Congress adjourns, we need Berger's sign-off by tomorrow afternoon (I'll hand-carry to Gene and Larry thereafter) to get it to Staff Secretary tomorrow night so that the President can review and sign it during office time on Wednesday. (Lael, Holly, Al Maldon, Karen T. have already cleared.) Sarah is waiting for guidance from Gene. We could send it to Congress and release a statement to the press late Wednesday or anytime Thursday if he wants. Sarah has circulated a draft Statement of the President and will circulate a draft child labor convention Fact Sheet for WH Press.

Pensions: The NEC working group is trying to sort through all of the pension provisions in the House and Senate tax bills, so that -- after a veto -- we have clear guidance on Administration policy on various provisions likely to be subject to negotiation. Unfortunately, a number of key provisions we strongly oppose are important to Senator Roth or have Democratic support. Treasury seems resigned that we'll accept many if a tax bill happens this year. Also -- Sarah finally got a policy paper from Treasury (6 months after it was requested) responding to proposals by PBGC. Two provisions in the House tax bill -- raising the compensation limits and the benefit limits for defined benefit plans -- are supported by PBGC because of their desire to incent employers to expand (or at least not fold) defined benefit plans. Treasury is firmly opposed. DoL believes we should trade for expanded coverage provisions. The provisions, however, appear to have much support -- including Democratic support -- on the Hill. Sarah will frame the issues and run a process to seek guidance.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 5-AUG-1999 14:42:35.00

SUBJECT: Debt Reduction Report

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

smartinez@cdfig.childrensdefense.org (smartinez@cdfig.childrensdefense.org @ inet [UNKNOWN])
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Steven_Hornburg@mbaa.org (Steven_Hornburg@mbaa.org @ inet [UNKNOWN])
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susan@fcnl.org (susan@fcnl.org @ inet [OA])
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tperez@os.dhhs.gov (tperez@os.dhhs.gov @ inet [UNKNOWN])
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tom.skinner@potomacpartners.com (tom.skinner@potomacpartners.com [UNKNOWN])
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trasvina@justice.usdoj.gov (trasvina@justice.usdoj.gov @ inet [UNKNOWN])
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tseto@lmulaw.lmu.edu (tseto@lmulaw.lmu.edu @ inet [UNKNOWN])
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txdauster@aol.com (txdauster@aol.com @ inet [UNKNOWN])
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vmetze@mail.windywillows.net (vmetze@mail.windywillows.net @ inet [UNKNOWN])
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vmiller@iet.intr.net (vmiller@iet.intr.net @ inet [UNKNOWN])
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WHMattea@aol.com (WHMattea@aol.com @ inet [UNKNOWN])
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womenwork@worldnet.att.net (womenwork@worldnet.att.net @ inet [UNKNOWN])
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woodyd@seiu.org (woodyd@seiu.org @ inet [UNKNOWN])
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wtreanor@mail.lawnet.fordham.edu (wtreanor@mail.lawnet.fordham.edu @ inet [UNKNOWN])
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wwjohn3@aol.com (wwjohn3@aol.com @ inet [UNKNOWN])
READ:UNKNOWN

yhall@aol.com (yhall@aol.com @ inet [UNKNOWN])
READ:UNKNOWN

zirkinn@mail.aauw.org (zirkinn@mail.aauw.org @ inet [UNKNOWN])
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TEXT:
Here as a Word document (about 19 pages) is the Treasury's report on the
benefits of debt reduction.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D26]ARMS22698771R.236 to ASCII,
The following is a HEX DUMP:

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

From Widening Deficits to Paying Down the Debt: Benefits for the American People

August 4, 1999

Office of Economic Policy
U.S. Department of Treasury

From Widening Deficits to Paying Down the Debt: Benefits for the American People

August 4, 1999

Executive Summary

- President Clinton and Vice President Gore, working with the Congress, set the nation on a new course of fiscal responsibility. This program has reversed the pattern of deficit spending. In fiscal year 1999, a surplus of $99 billion, or 1.1 percent of GDP is expected. This would be the largest surplus relative to GDP since 1951. We have ended 28 consecutive years of deficit spending and recorded the first back-to-back surpluses since 1956-57.

- In early 1993, the Federal budget was projected to be in deficit by $429 billion in 1999. Instead, we now expect a surplus of $99 billion. This amounts to a saving of almost $530 billion for 1999 alone.

- Deficits over the years 1994 through 1999 were projected to total $2.1 trillion. Instead, shrinking deficits and a surplus in the two most recent years have slashed that figure by $1.7 trillion, or more than 80 percent. Over the next decade, unified budget surpluses are projected to build, reaching $473 billion, or 3.4 percent of GDP, by 2009.

- Because of this deficit reduction, we have reduced publicly held debt approximately $87 billion this fiscal year– the largest on record after adjusting for inflation. In the last two years, we have paid down $142 billion in debt. Since its peak of $3.830 trillion in March of 1997, we will pay down the debt to $3.638 trillion this quarter.

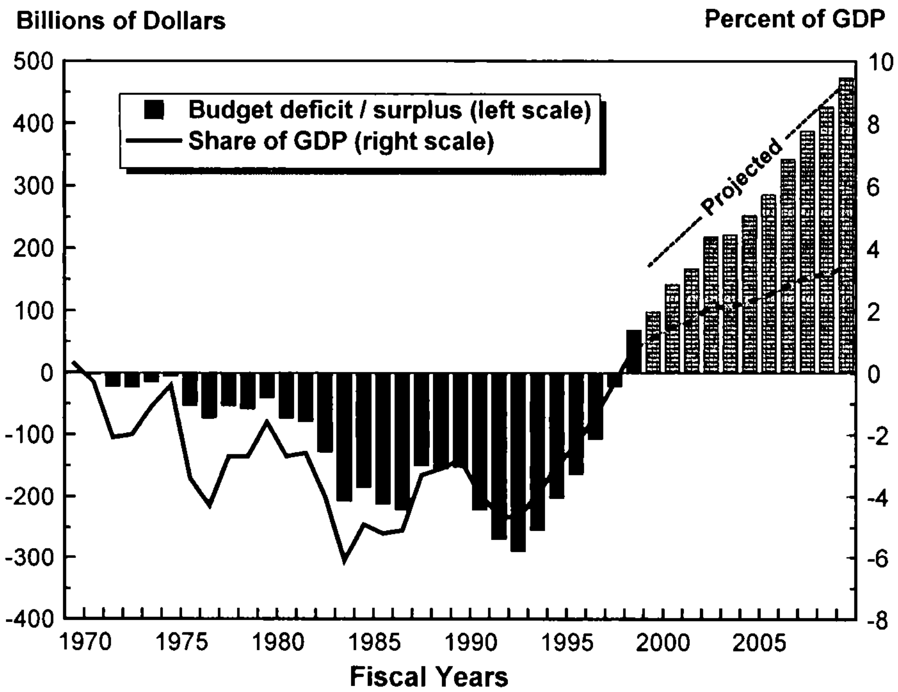
- The reduction in the deficit and lower interest rates have meant much lower interest costs than had been projected. Over the past seven years, a total of $189 billion in interest has been saved.

- In the absence of deficit reduction, interest payments on the ballooning federal debt would have swelled even more in the years ahead. It is estimated that lower interest payments on the federal debt from 1993 through 2003 will save taxpayers a total of almost $840 billion.

- Deficit reduction has helped reduce mortgage interest costs for American families. A typical American family with a mortgage of $100,000 might expect to save about $2,000 annually in mortgage costs.

- Deficit reduction has made more funds available for the private sector, helping to spur investment. Private business investment has surged. Investment in producers durable equipment has grown at double digit rates for six years in a row for the first time on record.

FIRST FEDERAL BUDGET SURPLUS SINCE 1969



Source: OMB, Mid-Session Review FY-2000 Budget

- Deficit spending had been the norm for the U.S. budget throughout most of the post-World War II period. Surpluses were recorded in only three years of the 1950s and in only two years of the 1960s. Our last surplus was in 1969, and it amounted to only 0.3 percent of GDP.

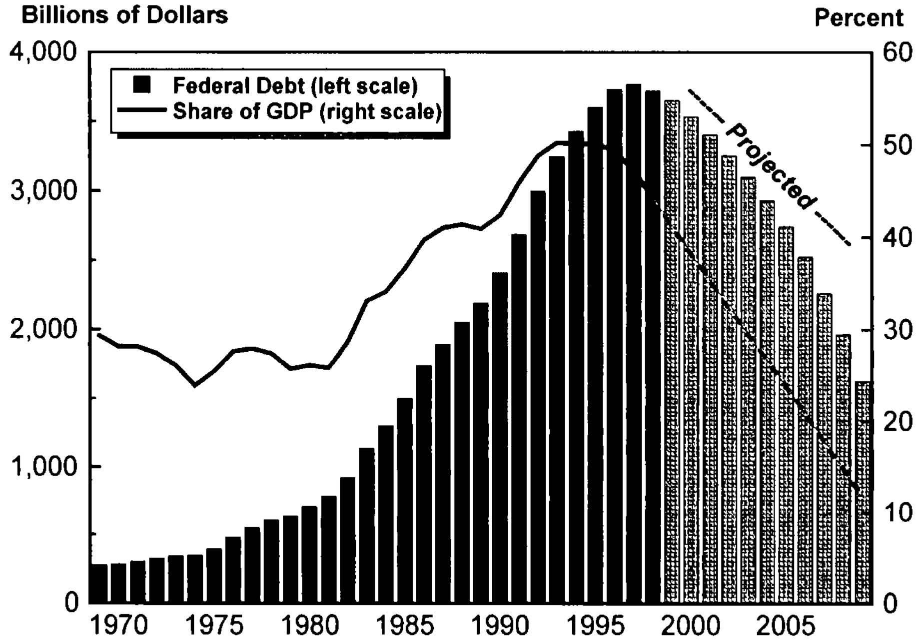
- ***During the 1980s, deficits widened dramatically, reaching 6.1 percent of GDP in 1983.*** The recessions of 1980-1982 contributed to the size of the deficit. But even after six years of economic expansion, 1989's deficit was still 2.8 percent of GDP.

- The deficit widened again in the early 1990s and reached a record in dollar terms of $290 billion, or 4.7 percent of GDP. Since then, ***President Clinton's program has reversed the pattern of deficit spending. In fiscal year 1999, a surplus of $99 billion, or 1.1 percent of GDP, is expected. This would be the largest surplus relative to GDP since 1951.***

- ***Over the next decade, unified budget surpluses are projected to build, reaching $473 billion, or 3.4 percent of GDP, by 2009.***

- Even excluding Social Security funds, the cumulative "on-budget" surplus is projected to exceed $1 trillion over the next ten years.

FEDERAL DEBT ON A DOWNWARD PATH



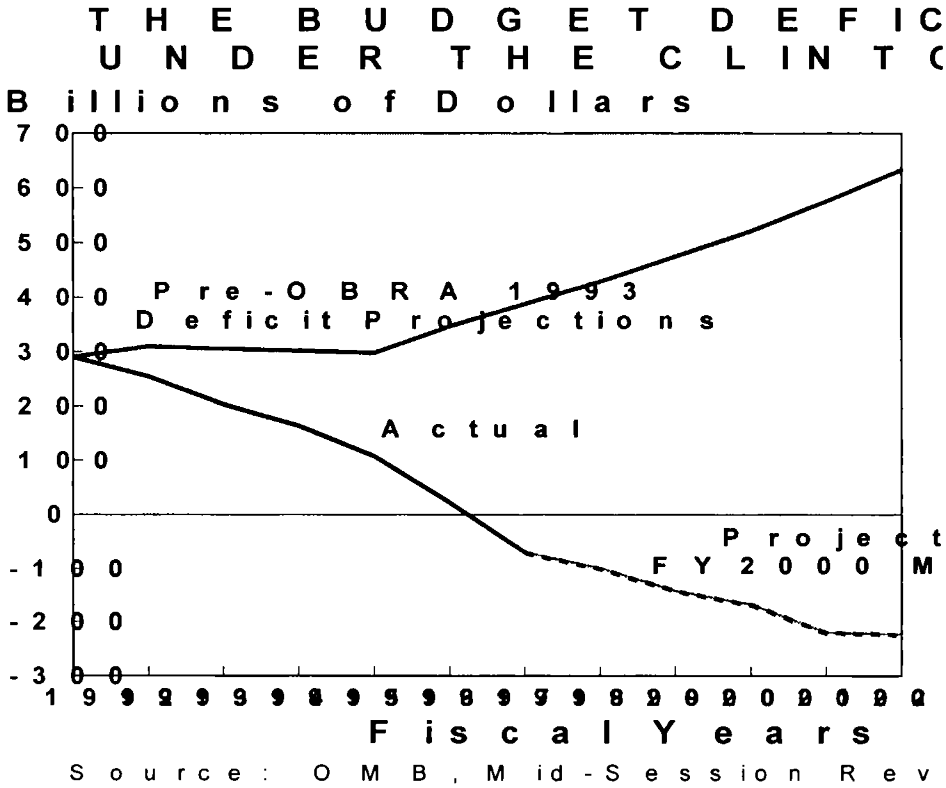
Source: OMB, Mid-Session Review FY-2000 Budget

- ***The legacy of deficit spending was a huge piling up of Federal debt.***

- ***Between 1980 and 1993, the amount of Federal debt held by the public more than quadrupled*** from $710 billion to $3.2 trillion. During this time, publicly held debt surged from 26 percent to 50 percent of GDP.

- Deficits, although declining, continued to add to the Federal debt through 1997, when the amount reached $3.8 trillion. Because deficits were cut over the 1993-1997 period, the debt relative to GDP eased to 47 percent.

- ***Fiscal year 1999 is the second year in a row in which we have been able to pay down some of the outstanding debt***. As a result, the ratio of debt to GDP is being slashed this year to about 41 percent. Under the Administration's proposals, the amount of Federal debt outstanding is projected to fall further to $1.6 trillion, or only 12 percent of GDP, by the year 2009, and is expected to disappear entirely by 2015. This means fewer taxpayer dollars will be needed to pay interest on the public debt between now and 2015.

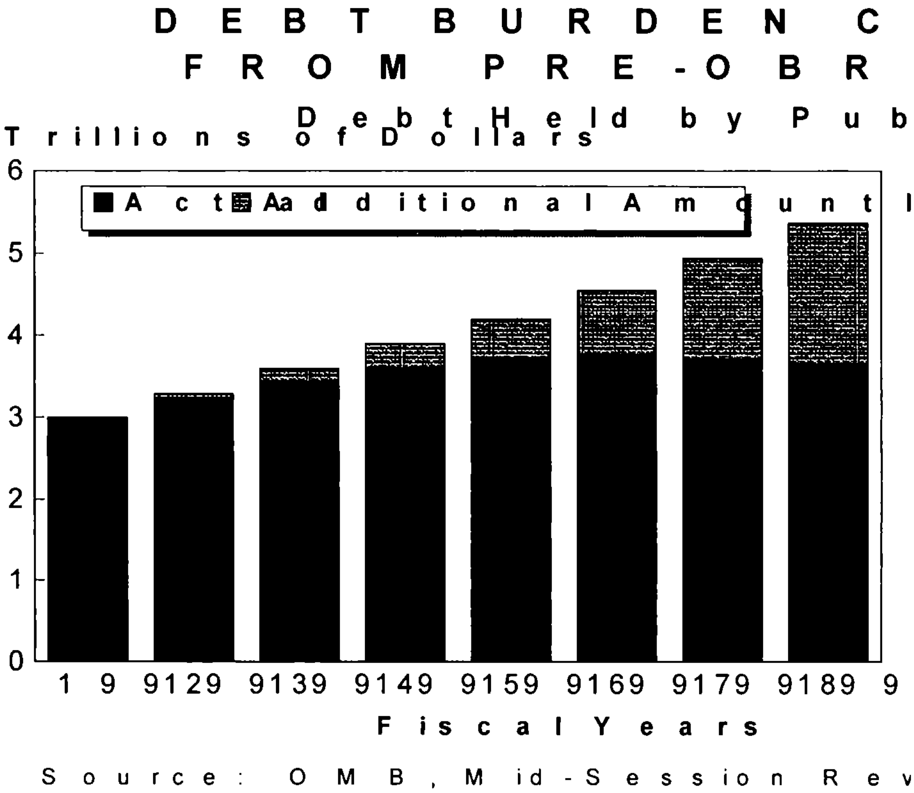


- The path to closing the Federal deficit began with the Administration's efforts in 1993 to reverse the previous decade's trend toward ever-widening deficits. The ***Omnibus Budget Resolution Act of 1993 (OBRA 1993)*** was a critical step toward achieving fiscal soundness.

- The ***1997 Balanced Budget Act*** provided another important push for fiscal discipline.

- ***Due to responsible fiscal policy and the noninflationary growth that it made possible, the Federal budget is now on a path of rising surpluses. We are on track to achieve a surplus approaching $100 billion in fiscal year 1999 instead of the $429 billion deficit that was projected for this year in early 1993. This amounts to a savings of almost $530 billion for 1999 alone.***

- Deficits over the years 1994 through 1999 were projected to total $2.1 trillion. Instead, shrinking deficits and a surplus in the most recent two years have slashed that figure by ***$1.7 trillion, or more than 80 percent***.



X Had the deficit grown as projected in 1993, the Federal debt held by the public would have ballooned to $5.4 trillion by 1999, representing 61 percent of GDP, rather than the actual current $3.7 trillion, or 41 percent of GDP.

X As a result, ***the Federal government's debt is $1.7 trillion lower than it was projected to be***. The average American family's share of the Federal debt burden is therefore more than $24,000 smaller.

- This $1.7 trillion represents roughly 19 percent of nominal GDP, and is money that has been freed up for investment in American businesses and homes.

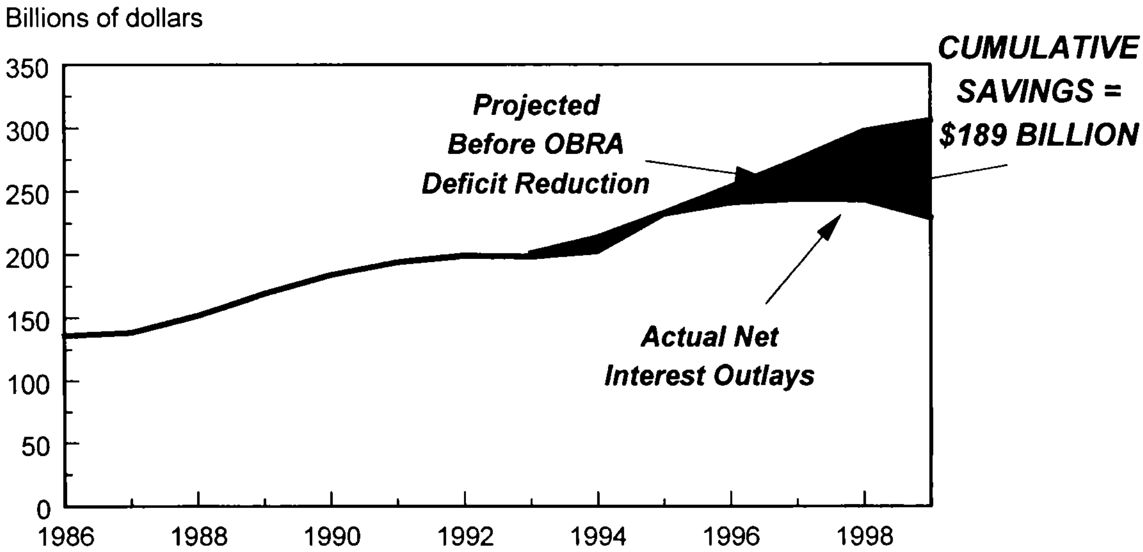
- The attached table illustrates how that $1.7 trillion reduction in the debt burden might be shared by each state, based on relative amounts of personal income.

STATE SHARE OF REDUCTION IN DEBT BURDEN
Billions of Dollars

1.	California	$213.9
2.	New York	137.3
3.	Texas	117.4
4.	Florida	91.8
5.	Illinois	82.8
6.	Pennsylvania	76.6
7.	Ohio	67.1
8.	New Jersey	65.6
9.	Michigan	60.4
10.	Massachusetts	48.0
11.	Georgia	45.5
12.	Virginia	44.3
13.	North Carolina	43.2
14.	Washington	37.9
15.	Maryland	36.6
16.	Indiana	34.0
17.	Missouri	31.6
18.	Wisconsin	31.2
19.	Minnesota	31.0
20.	Tennessee	30.5
21.	Connecticut	29.3
22.	Colorado	27.1
23.	Arizona	25.6
24.	Alabama	22.2
25.	Louisiana	22.2
26.	Kentucky	20.2
27.	South Carolina	19.5
28.	Oregon	19.4
29.	Oklahoma	16.8
30.	Iowa	16.3
31.	Kansas	15.6
32.	Mississippi	12.4
33.	Arkansas	12.3
34.	Nevada	11.3
35.	Utah	10.5
36.	Nebraska	9.8
37.	West Virginia	8.4
38.	New Mexico	8.2
39.	New Hampshire	8.2
40.	Hawaii	7.4
41.	Maine	6.8
42.	Rhode Island	6.3
43.	Idaho	6.2
44.	Delaware	5.3
45.	District of Columbia	4.6
46.	Montana	4.2
47.	South Dakota	3.9
48.	Alaska	3.8
49.	Vermont	3.4
50.	North Dakota	3.3
51.	Wyoming	2.7
	Total United States	$1,700.0

Note: Allocated according to State personal income.
Source: OMB and U.S Bureau of Economic Analysis.

FEDERAL INTEREST EXPENSES HAVE BEEN SHARPLY REDUCED



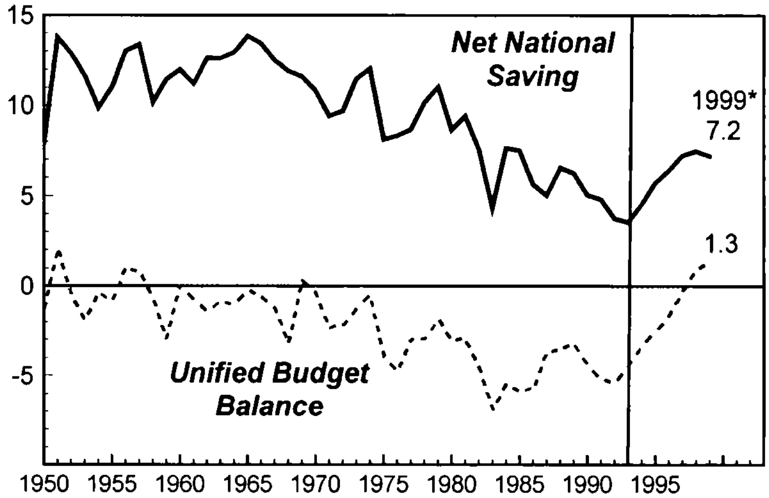
Source: OMB, Mid-Session Review of FY-2000 Budget

- The reduction in the deficit and lower interest rates have meant much lower costs than had been projected prior to the passage of OBRA. ***Over the past seven years, a total of $189 billion in interest has been saved***, as illustrated in the chart above. ***That amounts to roughly $2,700 for every American family***.

- In the absence of deficit reduction, interest payments on the ballooning federal debt would have swelled even more in the years ahead. ***It is estimated that lower interest payments on the federal debt from 1993 through 2003 will save taxpayers a total of almost $840 billion***.

TURNAROUND IN FEDERAL BUDGET BOOSTS NATIONAL SAVING

Percent of Net National Product - Fiscal Years



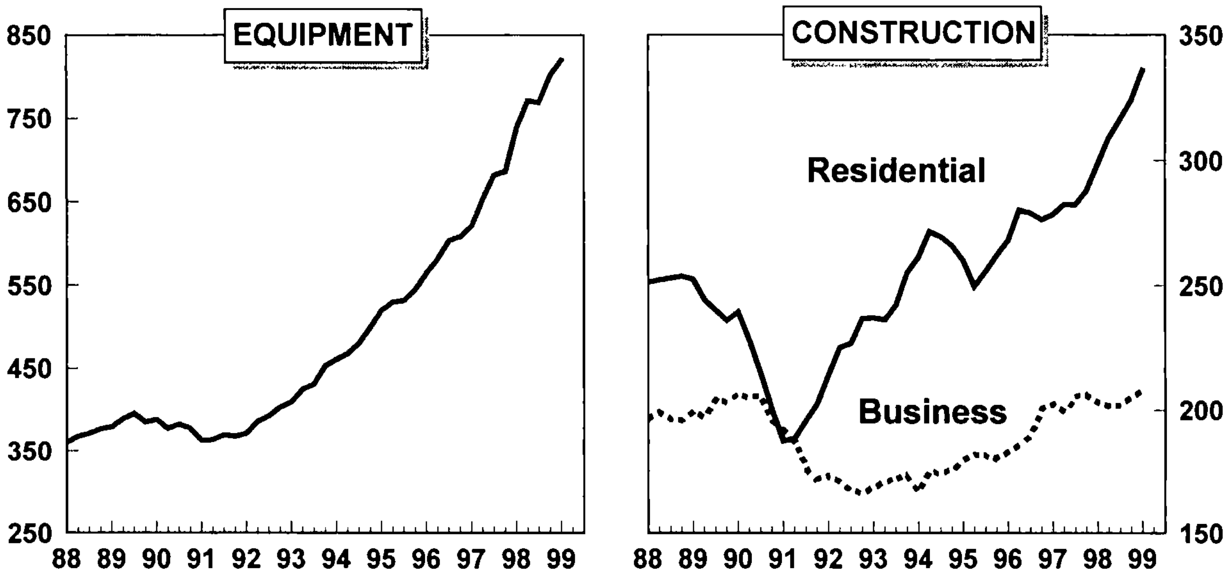
* FY-1999 estimated.
Source: BEA, National Income and Product Accounts; OMB, Mid-Session Review FY-2000 Budget.

- ***The swing in the Federal budget from steep deficit to surplus has resulted in a doubling of the net national saving rate*** from a post-World War II low of only 3.5 percent of net national product (NNP) in fiscal year 1993 to an estimated 7.2 percent this year. This 3.7 percentage point rise in net national saving was more than accounted for by a 5.7 percentage point swing in the Federal budget, from a deficit of 4.4 percent of NNP in FY-1993 to a surplus estimated at 1.3 percent of NNP this year.

- ***Growing Federal deficits had been a severe drain on national saving.*** In borrowing from the private sector to finance the unified deficit, the Federal government reduced the amount of national saving available for more productive use in the private sector.

- ***As a result of the swing from deficit to surplus, more funds are available for private sector uses, helping to spur investment.***

PRIVATE INVESTMENT HAS SURGED
Billions of 1992 Dollars



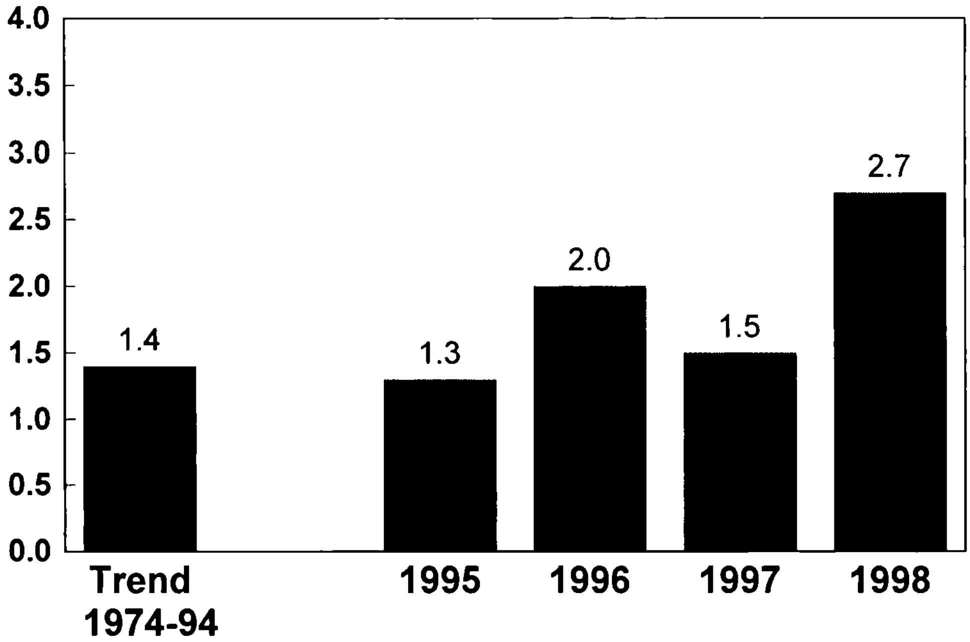
Source: BEA, National Income and Product Accounts.

- ***Private business investment has surged. As a share of GDP, real investment has risen to a record high of more than 12 percent.***

- ***Purchases of producers' durable equipment have been particularly strong.*** For the first time on record, annual growth rates were in double digits for six years running. This component of investment, which includes computers, may be especially closely related to productivity growth.

- ***Investment in new business structures has also benefited from the low interest rate environment.*** The nonresidential market has been recharged since 1993.

STRONG PRODUCTIVITY GROWTH
Percent at an Annual Rate



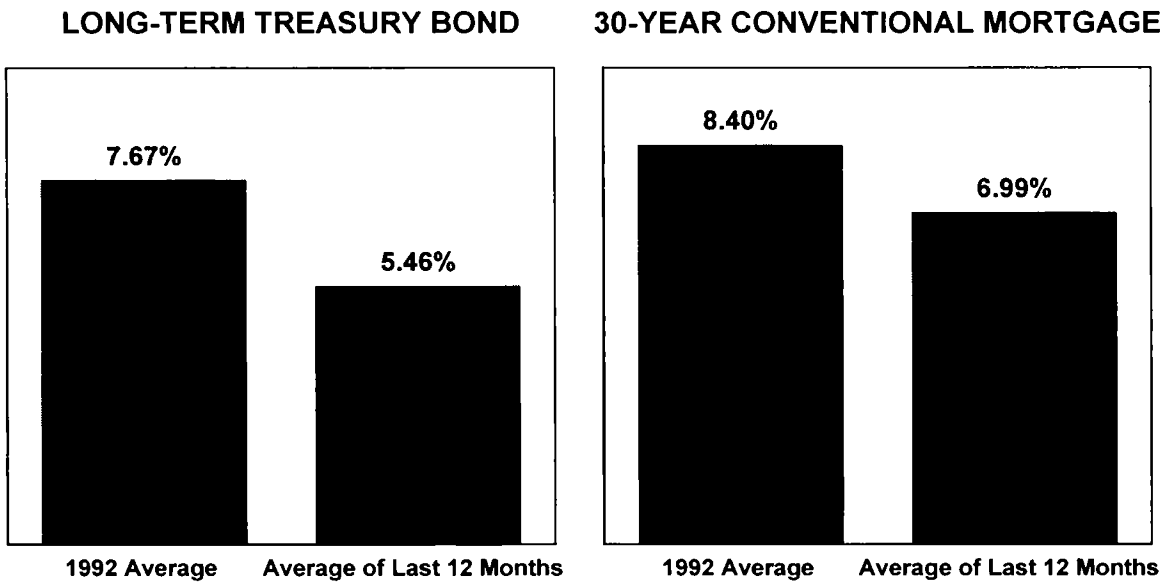
Source: Bureau of Labor Statistics and U.S. Treasury estimates.

- Rising investment, especially in equipment incorporating the latest advances in technology, has contributed to a ***pickup in workers' productivity.*** Output per hour in the nonfarm business sector has grown at a 2.0 percent annual average rate from the end of 1994 through the first quarter of this year, a substantial acceleration from the trend rate of growth of 1.4 percent (calculated on a methodologically consistent basis) that prevailed from the 1970s through the early 1990s.

- ***Higher productivity leads to higher standards of living.*** Real average hourly earnings of nonfarm production and other nonsupervisory workers have recently posted the strongest increases since the early 1970s. Despite the rapid gain in real wages, unit labor costs have actually decelerated because of strong productivity growth, reducing the pressures on inflation.

- ***Rising investment has also resulted in a rapid expansion of capacity, contributing to an environment of noninflationary growth.***

DEBT REDUCTION MEANS LOWER INTEREST RATES
Monthly in Percent



Source: Federal Reserve

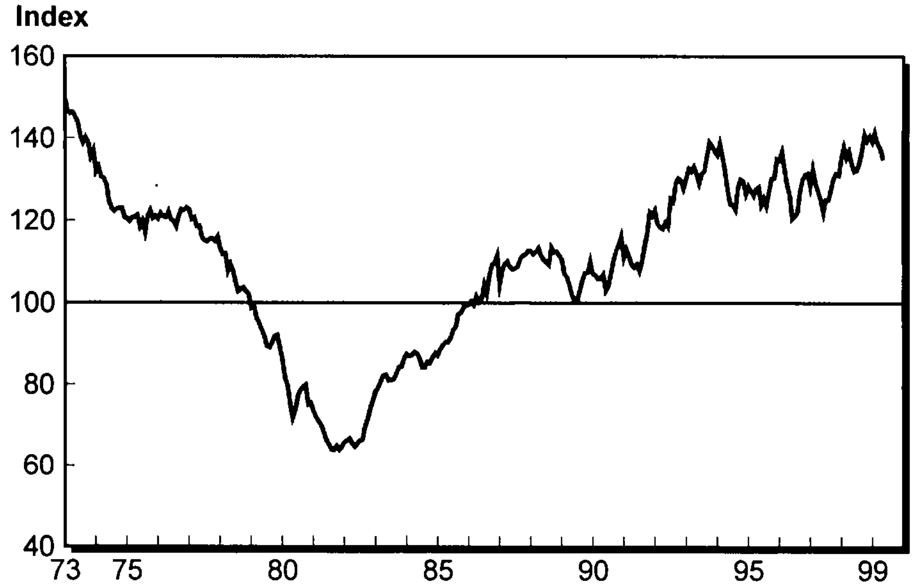
- The impact of deficit reduction on interest rates, especially long-term interest rates, has been significant. On average, interest rates have risen by about 1 percentage point during previous economic expansions. Instead, ***long-term rates have fallen during this expansion.***

- Market interest rates fluctuate and have risen recently but the average ***yield on the 30-year Treasury bond over the last twelve months was less than 5-1/2 percent, down from an average of 7.67 percent in 1992.*** The Blue Chip consensus of private forecasters predicts continued low interest rates.

- Interest rates on conventional home mortgages averaged just under 7 percent over the past twelve months – almost 1-1/2 percentage points below the average in 1992.

- ***Assuming an impact of deficit reduction on interest rates of 2 to 3 percentage points – a range that seems reasonable given the decline in rates during this expansion and the rise in rates during previous expansions – a typical American family with a mortgage of $100,000 would save around $2,000 a year on mortgage payments.*** Like a tax cut, lower mortgage payments would place more money in a family's pockets.

HOUSING AFFORDABILITY SINCE 1993 HAS BEEN THE BEST SINCE THE EARLY 1970'S



Source: National Association of Realtors

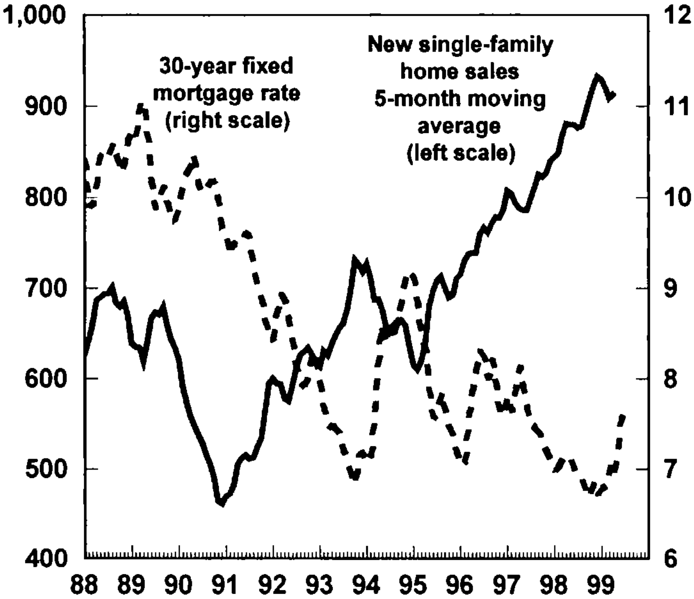
- Lower mortgage interest rates contributed to making housing more affordable. ***Housing affordability conditions since 1993 have been the most favorable since the early 1970's.***

- The index shown above measures the size of a mortgage for which a family earning the median income can qualify, relative to the median price of a home. An index reading of 100 means that a family with median income can qualify for a mortgage that would allow it to purchase a median-priced home. ***Since 1993, half of all households had at least 30 percent more income than required to buy the average home.***

- Lower monthly payments and the strong economy have opened the housing market over the past six years to many more families whose income may be below the median level.

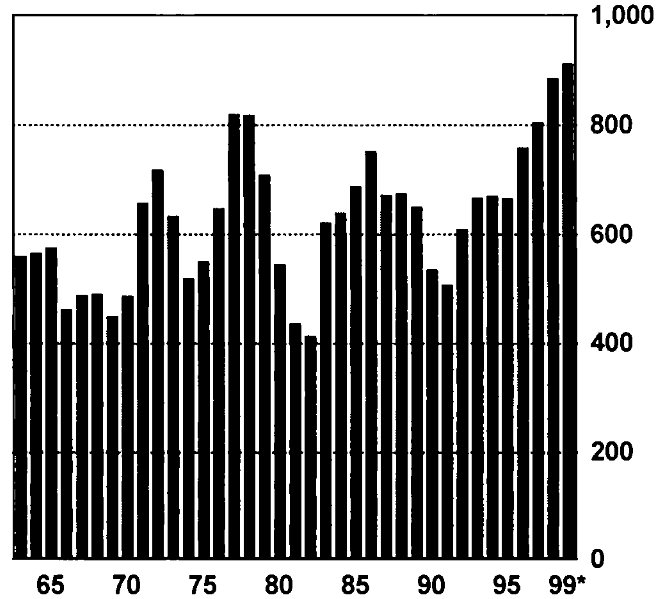
HOME SALES RISE AS MORTGAGE RATES FALL

Thousands of Units, Monthly at an Annual Rate — Percent



..AND SALES HAVE HIT A RECORD

Thousands of New Homes Sold, Annual Data



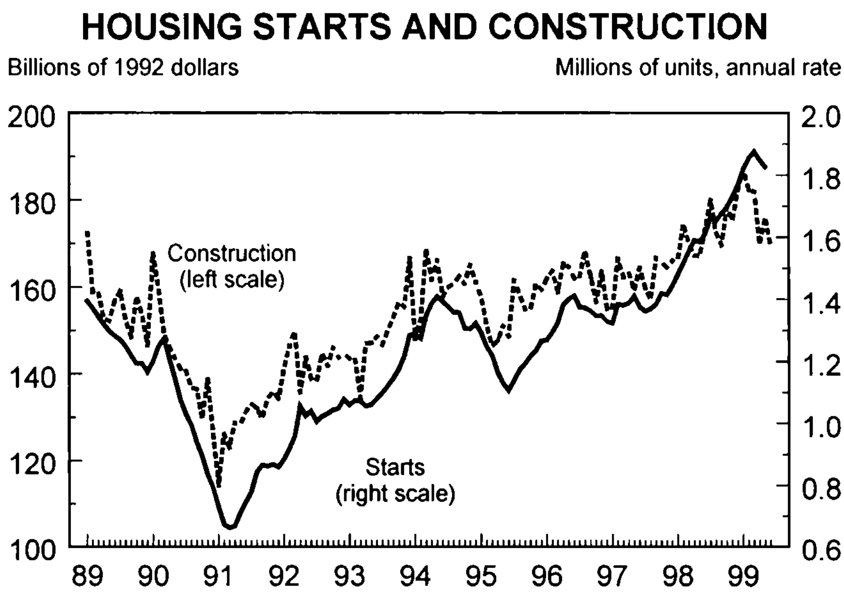
* First six months at an annual rate.

Source: Federal Reserve and U.S. Bureau of the Census

- ***Favorable housing affordability has led to a record-setting pace of home sales.*** It is estimated that a sustained drop of 1 percentage point in the mortgage interest rate paves the way for roughly 70,000 new home purchases per year. That effect, coupled with low unemployment, rising income and wealth, and high levels of consumer confidence, have spurred sales of both new and existing homes to all-time highs.

- New single-family home sales totaled 885,000 in 1998, ***exceeding the previous record set in 1977 by 8 percent***. Through the first half of 1999, new home sales were on an annual pace of over 910,000.

- ***Resales of existing homes also hit new peaks***, according to the National Association of Realtors. Sales of existing single-family homes reached almost 5 million last year, ***more than 13 percent above the old record of 1997.*** Resales in 1999 continue to climb.



Source: U.S. Bureau of the Census

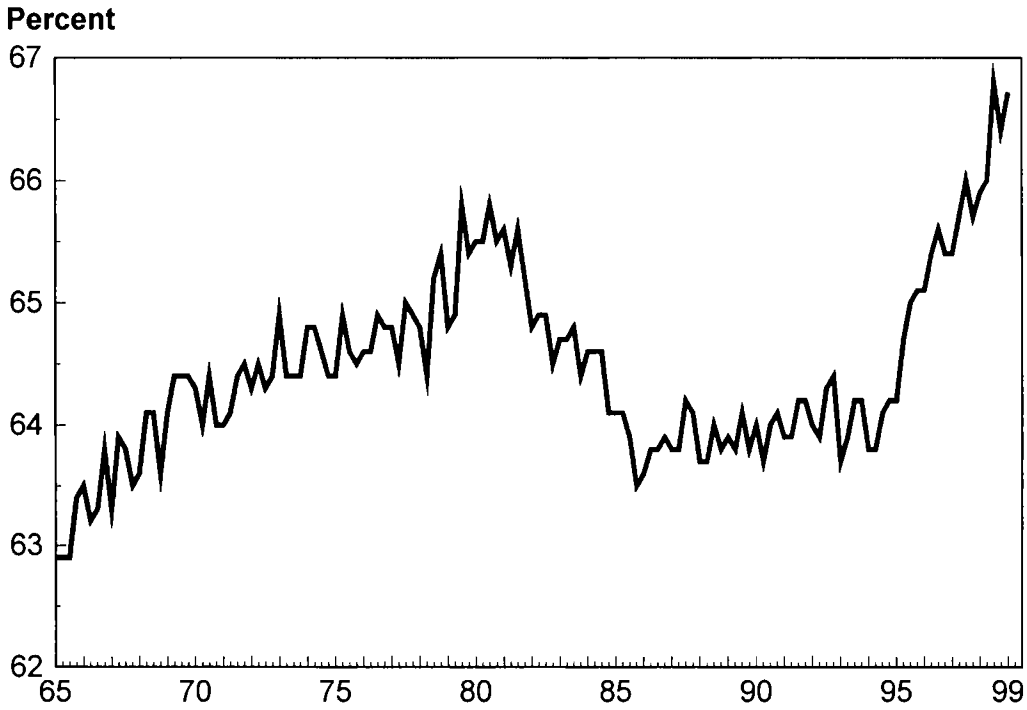
- Demand for new housing and residential improvements, financed at lower interest rates, has led to ***strong growth in real construction spending*** since the beginning of 1993. Real expenditures on residential building have grown at a 4 percent annual rate from early 1993 through the first five months of this year.

- ***Starts of new homes***, both single and multi-family, ***increased by one-third*** since 1992, rising to 1.6 million in 1998. That made last year the ***best year for home building since 1977 and 1978,*** when the baby boom generation began to have a significant impact on the housing market.

- ***The growth of new housing prompted large gains in construction of new retail establishments as well.*** The commercial real estate market picked up beginning in 1994, with real construction spending growing by an annual average of almost 8 percent since then.

- ***Growth in residential and commercial construction has contributed to sizable gains in overall construction employment.*** Since January 1993, construction jobs have increased by more than a third, rising by 1.7 million jobs to 6.3 million as of this June.

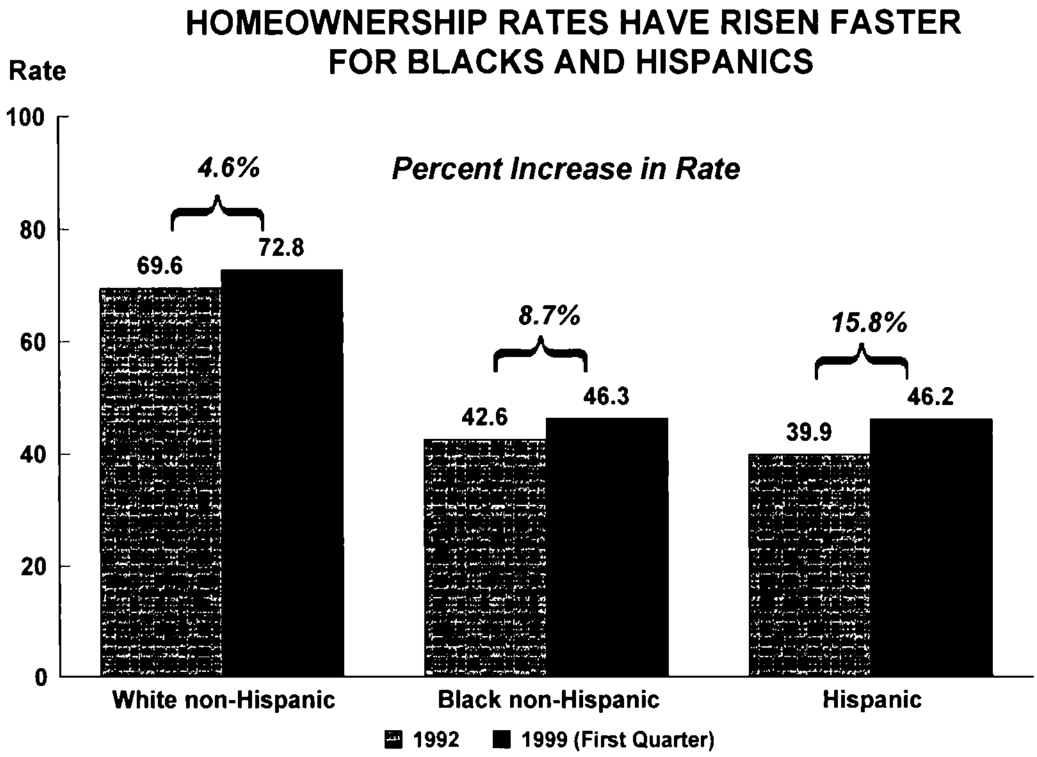
HOMEOWNERSHIP RATE THE HIGHEST EVER



Source: U.S. Bureau of the Census

- ***Since the first quarter of 1993, an additional 7.9 million families have become homeowners***. For the first time ever, the number of families in the U.S. who own their own homes topped 69 million and is nearing 70 million.

- After falling in the early 1980s and stagnating through the mid 1980s until 1993, ***the homeownership rate rose to an historical high of 66.8 percent in 1998***. Prior to the recent period, the old record homeownership rate was 65.8 percent, set in the third quarter of 1980.



Source: U.S. Bureau of the Census

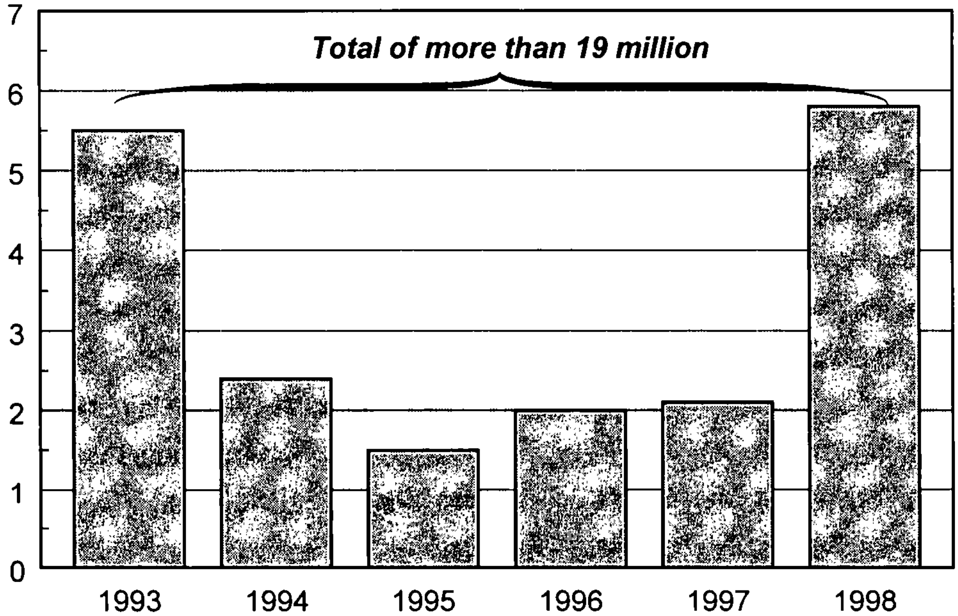
- The expansion in the homeownership rate has been most pronounced for groups that have typically had lower participation in the housing market. While the homeownership rate for black and Hispanic households still remains below that of white households, ***both minority groups have enjoyed much more rapid growth in homeownership than the rest of the population over the past six years.***

- The homeownership rate for black non-Hispanic households increased from 42.6 percent in 1992 to 46.3 percent by the first quarter of 1999. The rate for Hispanic households rose from 39.9 percent to 46.2 percent.

- In addition to low mortgage rates and a strong economy, Administration actions such as lowering FHA mortgage insurance premiums and forming the National Partners in Homeownership program have contributed to the expansion in homeownership.

REFINANCINGS HAVE MADE HOMEOWNERS BETTER OFF

Millions of Refinancings*



*Estimated by Treasury Department

- In addition to lowering finance costs to purchase a home, ***falling mortgage interest rates have allowed homeowners to save money by refinancing their existing mortgages***. As mortgage interest rates fell below 7 percent in 1993, refinancings surged to nearly 5-1/2 million that year. Those homeowners shaved about 2 percentage points off their mortgage rate on average, ***saving about $1,800 a year in interest payments for a typical-sized loan.***

- The stream of refinancings continued through 1998, when another drop in mortgage rates last year spurred an additional round of refinancings. Many families refinanced more than once over the 1993-1998 period. ***Since 1993, total mortgage refinancings have topped 19 million.***

- Many homeowners who refinanced borrowed a larger amount than their old loan but because of lower mortgage rates were able to keep their monthly payments steady. That extra cash was used in a variety of ways that helped families to be better off, such as making home improvements, paying off other higher-rate existing debt, buying a car, or paying for college.

- Other homeowners chose to refinance 30-year mortgage loans with shorter loan terms such as 15 years, thereby building up equity in their homes more quickly. Some with adjustable rate loans took advantage of the historically low rates to lock in the low financing costs by converting to a fixed-rate loan.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 6-AUG-1999 12:49:27.00

SUBJECT: Re: multiemployer section 415 relief

TO: Paul A. Tuchmann (CN=Paul A. Tuchmann/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TEXT:
---------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on 08/06/99 12:49 PM ---------------------------

Sarah Rosen Wartell
08/03/99 08:33:12 AM
Record Type: Record

To: Mark.Iwry@do.treas.gov
cc: See the distribution list at the bottom of this message
Subject: Re: multiemployer section 415 relief

A few edits (non substantive) so that it is a piece of paper that we could provide to staff or union officials to elaborate on the administration proposal.

Message Copied
To:
william.bortz@do.treas.gov
leonard.burman@do.treas.gov
gillian.hunter@do.treas.gov
amy.null@do.treas.gov
david.richardson@do.treas.gov
donna.shackleford@do.treas.gov
paul.smith@do.treas.gov
deborah.walker@do.treas.gov
harlan.weller@do.treas.gov
donald.wellington@do.treas.gov
lisa.andrews@do.treas.gov
frank.toohey@do.treas.gov
akers-valerie@dol.gov
amy.null@do.treas.gov
Bruce D. Long/OMB/EOP@EOP
david w. beier@ovp
deborah.walker@do.treas.gov
donald.wellington@do.treas.gov
donna.shackleford@do.treas.gov
Douglas D. McCormick/OMB/EOP@EOP

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Gay L. Joshlyn/OPD/EOP@EOP
gillian.hunter@do.treas.gov
grant.joseph@pbgc.gov
gustafson.david@pbgc.gov
harlan.weller@do.treas.gov
healy.monica@pbgc.gov
hinzr@pwba.dol.gov
holzer-harry@dol.gov
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Janet R. Forsgren/OMB/EOP@EOP
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pieter j. boelhouwer@ovp
Robin L. Lumsdaine/CEA/EOP@EOP
schub.judy@pbgc.gov
sirkin.stuart@pbgc.gov
turner-john@dol.gov
watsons@pwba.dol.gov
william.bortz@do.treas.gov
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D6]ARMS253140913.236 to ASCII,
The following is a HEX DUMP:

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

August 2, 1999

~~Possible Position Regarding~~ Proposals to Give Multiemployer Pension Plans Special Relief from Section 415 Defined Benefit Limits

Note: except where specified otherwise, all of the dollar limits described below are indexed for cost-of-living; some of the amounts have been rounded to the nearest $1,000.

I. BACKGROUND

Internal Revenue Code section 415 limits pensions paid from tax-qualified defined benefit plans, so that an individual's pension may not exceed a specified dollar limit (determined based on the age of commencement) and may not exceed 100% of highest 3-year average pay.

The specified dollar limit for 1999 is $130,000 for pensions payable beginning at Social Security Retirement Age (currently age 65, but scheduled to phase up to age 67), reduced actuarially for earlier commencement. For example, the specified dollar limit is $104,000 for pensions payable beginning at age 62, $89,000 at age 60, $62,000 at age 55 and $44,000 at age 50.

The Internal Revenue Code contains a special rule for defined benefit plans sponsored by governments, tax-exempts and merchant marines. For these plans, the $130,000 section 415 limit applies to pensions payable beginning at age 62 (instead of Social Security Retirement Age) and the actuarial reductions for earlier commencements are based on this age 62 limit. Because the age 62 limit for these special groups is 25% higher than the generally applicable limits ($130,000 vs. $104,000), the specified dollar limits at earlier ages are correspondingly 25% higher than the generally applicable rules. For example, the limit for governmental employees at age 55 is $77,000 (or 125% of the generally applicable age-55 limit of $62,000).

Another relevant rule permits the payment of a minimum benefit of $10,000 (unindexed) for any person -- even if retiring early and even with average pay of less than $10,000 -- who has not participated in a defined contribution plan of the same employer.

For purposes of section 415, all plans maintained by an employer and related entities are combined, except that the regulations permit a multiemployer plan to disregard benefits provided by the same employer through other multiemployer plans. Thus aggregation of a multiemployer plan and a single-employer plan maintained by the same (or a related) employer is required.

~~Representatives of multiemployer plans have sought further relief from the section 415 limits, as outlined in the July 18, 1999 Multiemployer Section 415 Relief Status Report prepared by the Building & Construction Trades Department, AFL-CIO.~~

II. ADMINISTRATION'S FY 2000 BUDGET PROPOSAL

The Administration's FY 2000 budget has proposed exempting multiemployer defined benefit plans from the 100%-of-pay limit. This exemption has been incorporated in the current tax bill in both the House and the Senate. The Administration's budget~~, in response to union suggestions,~~ has also proposed that no early retirement adjustments apply in the case of multiemployer plan survivor and disability benefits. This latter provision is not included in the current House or Senate tax bill, but was included in the Democratic House alternative.

III. ~~POSSIBLE MODIFICATION OF~~ *ADDITIONS TO THE* ADMINISTRATION'S *BUDGET* PROPOSAL

~~The following describes a possible expansion of~~ **In addition to** the section 415 multiemployer relief ~~as~~ set forth in the FY 2000 Budget~~. In addition to~~ -- repeal of the 100% of pay limit for multiemployer plans and exempting survivor and disability benefits from the actuarial adjustments for early commencement --, ~~as provided for in the FY 2000 budget,~~ multiemployer plans **would** ~~could~~ be --

1. Given the same special higher early retirement section 415 limit that currently applies to defined benefit plans sponsored by governments, tax-exempt organizations and merchant marine, and

2. Exempted -- where the multiemployer plan is a defined benefit plan -- from the aggregation rule requiring plans to take into account benefits provided under other plans maintained by the same employer when testing for compliance with the section 415 limits.

RATIONALE

Multiemployer plans should be permitted to provide for higher early retirement benefits because the participants in these plans generally are engaged in hard physical labor and need to retire earlier than white-collar workers, and because these participants tend to change employers with particular frequency and are more likely to encounter difficulties in being hired because they often find themselves between jobs at a relatively advanced age.

Multiemployer plans need relief from the plan aggregation rules because it is administratively difficult for them to secure data from sponsors of single employer plans.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-AUG-1999 14:52:33.00

SUBJECT: Re: FINAL CLEARANCE -- PBGC letter to Rep English

TO: Sandra Yamin (CN=Sandra Yamin/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:
I am checking on one fact and then will get back to you. Answer in short
is -- we're safe.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-AUG-1999 16:56:14.00

SUBJECT: Re: FINAL CLEARANCE -- PBGC letter to Rep English

TO: Sandra Yamin (CN=Sandra Yamin/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: janet r. forsgren (CN=janet r. forsgren/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

CC: mindy e. myers (CN=mindy e. myers/OU=who/O=eop@eop [WHO])
READ:UNKNOWN

TEXT:
Rep. English has not introduced his proposal -- he just sent the language to PBGC in working draft form. It is not contained in any of the current tax bills that are pending and soon to be vetoed. Pension provisions such as this rarely move on their own, but rather in the context of broader pension/tax legislation.

While we have no current test of the support for this proposal's strength, this issue is akin to the issue that the President said was a basis for his veto in 1995 -- where he talked about the threat of pension raiding by corporate execs. While the case here isn't quite as far reaching (in that they would only be raiding pensions to shift to stock bonus plans rather than before to switch to a broad range of other types of benefit plans), we still would have a strong argument. They would be shifting pension funds to a new fund to buy the company's own stock to make themselves better able to fend off corporate takeovers. I don't suspect that the republicans want to walk into that fight on its own (as opposed to buried in a big bill.)

For context, let me tell you what I know about the 1995 debate. There, 30-40 republicans wrote a letter to the Speaker asking him to strike the similar (although much broader) provision from the House bill. (He ignored them.) In the Senate, there was an amendment strike a comparable provision on the floor, sponsored by Kassenbaum, which got over 90 votes. So it was out in the Senate, in in the House. It stayed in after conference, and the president vetoed the bill, using this as one basis for it. In any event, when the issue is in the public eye, we clearly have the stronger of the public arguments. We're protecting pensions -- they are letting corporations raid workers' retirement savings.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-AUG-1999 13:23:33.00

SUBJECT: PBGC reversion letter

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

TEXT:
FYI -- We have cleared the PBGC reversion letter to Congressman English and PBGC plans to send it either today or tomorrow. PBGC will bring signed copies to the next interagency pension group meeting for you and the agencies.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Schub Judy <Schub.Judy@PBGC.GOV> (Schub Judy <Schub.Judy@PBGC.GOV> [UNKNOWN])

CREATION DATE/TIME:18-AUG-1999 16:07:57.00

SUBJECT: Political Analysis

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

TEXT:
I don't know if the attached is what you needed. Let me know if you need something different.
<WP Attachment Enclosed>
<<SARAHMEM.WPD>>

- SARAHMEM.WPD=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D54]ARMS209793030.236 to ASCII,
The following is a HEX DUMP:

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

Portman-Cardin currently has 135 cosponsors. 63 are Democrats, including several leadership people (Bonior, Hoyer, Frost) and 7 Democratic members of the Ways and Means Committee.

Since we have not spoken directly to these members or their staffs, it is impossible to know why they co-sponsored. We do know that the multiemployer unions put a big push on getting cosponsors. (The multis were particularly interested in the increased (DB) incentives.) Also, members are anxious to be associated with anything that can be portrayed as dealing with "retirement security." Further, Cardin may have worked the bill hard and he is well respected. (Democrats continued to sign-on to the bill even after the tax debate -- several added their names on August 3.)

I suspect that most members' offices did not analyze each provision in Portman-Cardin before signing on. Pension issues are viewed as technical and so these issues are not on most members radar screens. We really don't know what these members think about incentives, from a policy perspective, especially the narrow area of DB incentives. Members who are vocal on the inequities in the tax bill may view retirement security provisions somewhat differently.

[Putting incentives aside, I note that there is plenty in Portman-Cardin for Democrats to dislike: Roth 401(k)s, increased IRA limits, weakening nondiscrimination and top heavy rules, etc. But, despite this, a number of moderate members (Bonior, John Lewis, Levin, Pelosi, etc.) are cosponsors.]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-AUG-1999 16:07:14.00

SUBJECT: Re: Political Analysis

TO: Schub Judy <Schub.Judy@PBGC.GOV> (Schub Judy <Schub.Judy@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

TEXT:
very helpful. I may come back for more. tks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:15-SEP-1999 13:32:05.00

SUBJECT: Re: Section 415

TO: Melissa M. Goldstein (CN=Melissa M. Goldstein/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: sarah rosen wartell (CN=sarah rosen wartell/OU=opd/O=eop@eop [OPD])
READ:UNKNOWN

TEXT:
Karen is fine with this.. We will call Georgine this afternoon. Thanks.

Melissa M. Goldstein@OVP
09/15/99 11:54:13 AM
Record Type: Non-Record

To: Karen Tramontano/WHO/EOP@EOP
cc: Carolyn T. Wu/WHO/EOP@EOP, Sarah Rosen Wartell/OPD/EOP@EOP
Subject: Section 415

We're going to send out the letter today. You mentioned that you might want to call Georgine and possibly Sweeney to give them a heads-up. Also, I'm attaching an explanatory document prepared by PBGC, Treasury, and CEA. We want to make sure that you are comfortable with the last section ("Rationale") before using language from the piece in any talking points, etc. Thanks,

Melissa Goldstein
OVP domestic policy
White House Fellow

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D6]ARMS27346485A.236 to ASCII,
The following is a HEX DUMP:

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

August 6, 1999

Proposals to Give Multiemployer Pension Plans
Special Relief from Section 415 Defined Benefit Limits

Note: except where specified otherwise, all of the dollar limits described below are indexed for cost-of-living; some of the amounts have been rounded to the nearest $1,000.

I. BACKGROUND

Internal Revenue Code section 415 limits pensions paid from tax-qualified defined benefit plans, so that an individual's pension may not exceed a specified dollar limit (determined based on the age of commencement) and may not exceed 100% of highest 3-year average pay.

The specified dollar limit for 1999 is $130,000 for pensions payable beginning at Social Security Retirement Age (currently age 65, but scheduled to phase up to age 67), reduced actuarially for earlier commencement. For example, the specified dollar limit is $104,000 for pensions payable beginning at age 62, $89,000 at age 60, $62,000 at age 55 and $44,000 at age 50.

The Internal Revenue Code contains a special rule for defined benefit plans sponsored by governments, tax-exempts and merchant marines. For these plans, the $130,000 section 415 limit applies to pensions payable beginning at age 62 (instead of Social Security Retirement Age) and the actuarial reductions for earlier commencements are based on this age 62 limit. Because the age 62 limit for these special groups is 25% higher than the generally applicable limits ($130,000 vs. $104,000), the specified dollar limits at earlier ages are correspondingly 25% higher than the generally applicable rules. For example, the limit for governmental employees at age 55 is $77,000 (or 125% of the generally applicable age-55 limit of $62,000).

Another relevant rule permits the payment of a minimum benefit of $10,000 (unindexed) for any person -- even if retiring early and even with average pay of less than $10,000 -- who has not participated in a defined contribution plan of the same employer.

For purposes of section 415, all plans maintained by an employer and related entities are combined, except that the regulations permit a multiemployer plan to disregard benefits provided by the same employer through other multiemployer plans. Thus aggregation of a multiemployer plan and a single-employer plan maintained by the same (or a related) employer is required.

II. ADMINISTRATION'S FY 2000 BUDGET PROPOSAL

The Administration's FY 2000 budget has proposed exempting multiemployer defined benefit plans from the 100%-of-pay limit. This exemption has been incorporated in the current tax bill in both the House and the Senate. The Administration's budget has also proposed that no early retirement adjustments apply in the case of multiemployer plan survivor and disability benefits. This latter provision is not included in the current House or Senate tax bill, but was included in the Democratic House alternative.

III. ADDITIONS TO THE ADMINISTRATION'S BUDGET PROPOSAL

In addition to the section 415 multiemployer relief set forth in the FY 2000 budget -- repeal of the 100% of pay limit for multiemployer plans and exempting survivor and disability benefits from the actuarial adjustments for early commencement -- multiemployer plans would be --

1. Given the same special higher early retirement section 415 limit that currently applies to defined benefit plans sponsored by governments, tax-exempt organizations and merchant marine, and

2. Exempted -- where the multiemployer plan is a defined benefit plan -- from the aggregation rule requiring plans to take into account benefits provided under other plans maintained by the same employer when testing for compliance with the section 415 limits.

RATIONALE

Multiemployer plans are typically found in industries that involve hard physical labor and relatively frequent changes of employment . Multiemployer plans should be permitted to provide for higher early retirement benefits because the participants have a particular need to retire early: the combination of hard physical labor and the weaker ties between workers and their employers in these industries means that companies may be less likely to employ an individual once the worker has reached an age at which he or she is less capable of bearing the physical stresses of the work

Multiemployer plans need relief from the plan aggregation rules because it is administratively difficult for them to secure data from sponsors of single employer plans.

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SUBJECT: LRM BCR19 - - TREASURY Testimony , Cash Balance vs. Traditional Pension Plans

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TEXT:
Following is LRM ID: BCR 19. Please read and respond by 4:30 PM, Today, September 17, 1999 to the Treasury request for clearance of the attached testimony by the Chief Counsel for the Internal Revenue Service (Brown) for a hearing before the Committee on Health, Education, Labor and Pensions on Hybrid Pension Plans scheduled to be held on September 21st at 9:30 AM. (13 pages)

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

Friday, September 17, 1999

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution

below
FROM: Janet R. Forsgren (for) Assistant Director for
Legislative Reference
OMB CONTACT: Bennie C. Rogers
PHONE: (202)395-7754 FAX: (202)395-6148
SUBJECT: TREASURY Testimony , Cash Balance vs. Traditional Pension
Plans

DEADLINE: 4:30 PM Friday, September 17, 1999
In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Treasury is requesting clearance by COB today (Friday, September 17th) of the attached testimony by the Chief Counsel for the Internal Revenue Service (Brown) for a hearing before the Committee on Health, Education, Labor and Pensions on Hybrid Pension Plans scheduled to be held on September 21st at 9:30 AM.

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LRM ID: BCR19 SUBJECT: TREASURY Testimony , Cash Balance vs.
Traditional Pension Plans
RESPONSE TO
LEGISLATIVE REFERRAL

MEMORANDUM

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

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

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

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PREPARED TESTIMONY OF
CHIEF COUNSEL FOR THE INTERNAL REVENUE SERVICE
STUART L. BROWN
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON HEALTH, EDUCATION, LABOR AND PENSIONS
HEARING ON HYBRID PENSION PLANS

INTRODUCTION

Mr. Chairman, I am pleased to appear before the Committee to discuss federal tax issues relating to cash balance pension plans. I will begin with a very brief overview of how the tax law applies to qualified retirement plans generally and how cash balance plans fit into this overall picture. I will then discuss three tax law issues of potential concern when a traditional defined benefit pension plan is converted to a cash balance plan: rate of accrual issues; protection of accrued benefit issues; and age discrimination issues. Finally, I will explain some of the general processes the Internal Revenue Service uses to decide whether a retirement plan meets the requirements to be a qualified plan under the tax law, and in this connection, I will describe the steps the Service is now taking to make sure that the special issues that arise in cash balance plan conversions receive appropriate review and are resolved correctly under the law.

OVERVIEW OF QUALIFIED PLANS AND CASH BALANCE PLANS

The Internal Revenue Code provides significant tax benefits to qualified retirement plans and also includes detailed and intricate requirements that must be met in order for those benefits to be available.[1] In general, the tax law gives employers a current deduction for amounts contributed to qualified plans, exempts qualified plan trusts from tax on the income earned by these contributions, and allows employees covered by the plans to include their benefits in income only when they are received (rather than when the benefits are earned). These tax benefits are, however, not available to all retirement plans; they only apply to retirement plans that meet a number of specific tax law requirements governing such matters as vesting and accrual of benefits, as well as rules requiring certain breadth of employee coverage, prohibiting discrimination in favor of highly compensated employees and barring the ceasing of accruals or reductions in the rate of benefit accruals "because of the attainment of any age." Retirement plans that meet these requirements are generally referred to as "qualified plans."

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[1] These rules are generally found in Subchapter D of the Internal Revenue Code of 1986, sections 401 et seq. Unless otherwise indicated, all statutory references in this testimony are to the Internal Revenue Code of 1986.

Qualified plans are broadly classified into two categories based on the nature of the benefits provided: defined benefit pension plans and defined contribution plans.

Under a defined benefit plan, participants are promised they will receive a specific level of benefits determined under a benefit formula contained in the plan document. These benefit formulas have traditionally been based on factors such as length of service and final average pay. For example, a typical defined benefit plan formula could provide a benefit payable at normal retirement age equal to 1.5% per year of service times average pay for an employee's last five years of employment. This benefit is funded by all assets of the plan; participants do not have individual accounts and the benefits they receive do not depend on the plan's investment results. If the value of plan assets declines, or appreciates too slowly to provide the promised benefits, the employer must make additional contributions to make up the shortfall. Conversely, if plan assets grow more rapidly than anticipated, employees will not receive any additional benefits, but rather the employer may be able to reduce future contributions to the plan. In addition, benefits under defined benefit plans are generally insured by the Pension Benefit Guaranty Corporation (PBGC).

Defined contribution plans, by contrast, determine the benefits payable to their participants by maintaining individual accounts for each participant. All contributions to a defined contribution plan (whether made by the employer or the employee) are credited to the account of individual participants. Each participant's account is likewise credited with the investment gain or loss attributable to its assets.[2] The ultimate benefit received by the participant is based solely on the amount in the individual account at the time the benefit is payable. Consistent with this overall benefit structure, the employer's only obligation is to make the contributions required by the plan -- the employer is not obligated to make additional contributions in the event the plan's investments do not perform as well as anticipated. The benefits payable by defined contribution plans are not guaranteed by the PBGC.

Under the Internal Revenue Code, a cash balance plan is a defined benefit plan with a benefit regime that resembles the benefits more typically associated with a defined contribution plan. The promised benefit under a cash balance plan is typically based on a hypothetical account balance created for the participant. The typical plan provides that each year this hypothetical account will be credited with both a "pay credit" (e.g., five percent of compensation) and an "interest credit" (the interest rate could be either fixed or variable). When the participant becomes entitled to receive benefits, the benefits that are received will be based on the value of the hypothetical account. In addition, cash balance plans often allow single sum distributions when a participant separates from service, as is usual for defined contribution plans (rather than requiring the participants to wait until retirement age).

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[2] Forfeitures may also be credited to the account.

Even though the cash balance plan resembles a defined contribution plan in these respects, it is, as a matter of law, a defined benefit plan.[3] The plan does not allocate all assets to individual accounts for participants, and participants are entitled to a stated benefit regardless of how plan assets perform. The hypothetical account balance is merely a method of computing this promised benefit. For example, assume that a 65 year old participant has a hypothetical account balance of $100,000 at normal retirement age. Because the plan is a defined benefit plan, the participant will be entitled to receive a single life annuity determined by applying actuarial factors specified in the plan.[4] If the plan specified the 1983 GAM (GATT) mortality table and a seven percent interest rate for this purpose, the single life annuity would be $10,128 per year. The participant would be entitled to this benefit no matter how assets held in the plan had actually performed.

Thus, while the benefit regime of cash balance plans typically resembles the benefit structure of defined contribution plans, the employer (rather than the participants) bears the investment risk with respect to plan assets -- an essential element of defined benefit plans. Cash balance plans are also required to satisfy a number of other tax rules that apply only to defined benefit -- not defined contribution -- plans. For example, actuarial factors used to determine benefits must be specified in accordance with section 401(a)(25) so as to preclude employer discretion; single sum distributions must be determined in accordance with the valuation rules of section 417(e); the accrued benefit for participants must be defined as provided in section 411(a)(7); and the plan must satisfy rules that relate to the pattern of benefit accrual under section 411(b)(1). In addition, cash balance plans must satisfy generally applicable qualification rules, including those designed to protect spousal rights and ensure that plan benefits flow to rank-and-file as well as highly compensated employees.

QUALIFICATION ISSUES PRESENTED BY CASH BALANCE PLAN CONVERSIONS

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[3] Sections 414(i) and 414(j); Notice 96-8, 1996-1 C.B. 359.

[4] Of course, if the participant is married, benefits must be paid in the form of a qualified joint and survivor annuity unless there is proper consent by the spouse to payment in another form. Section 417(a).

Most of the recent tax law controversies raised in connection with the use of cash balance plans have focused on conversions of more traditional defined benefit plan structures into cash balance plans.[5] The conversion of a traditional defined benefit plan to a cash balance plan typically involves an amendment to the benefit formula of the existing plan to convert the formula into a cash balance formula. This change in plan formula thus applies not only to new employees but also to employees who have worked for a number of years under the old formula. These employees have accrued benefits under the traditional defined benefit plan formula, and may also have definite expectations about the benefits they anticipated they would earn in the future under the traditional plan.

We have identified three tax law requirements that may not be satisfied in some conversions. These three issues are: the rate of accruals under section 411(b)(1)(A), (B) and (C); the protection of accrued benefits as required under section 411(d)(6); and the prohibitions against reduction of benefit accruals "because of" age under section 411(b)(1)(H). Let me describe each of these issues.

Rate of Accrual Issues. Section 411(b)(1)(A), (B), and (C) provide specific objective rules governing the pattern under which pension benefits must be accrued. These rules were enacted as part of the Employee Retirement Income Security Act of 1974 ("ERISA") in order to prevent "back loading" of benefit accruals. Back loading occurs when a disproportionate percentage of benefits are earned late in the employee's working career.[6] Analysis of this issue requires evaluating the pattern under which plan participants accrue the benefits promised under the plan to determine whether one of three statutory alternatives is met.

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[5]Stein, "Some Serious Questions About Cash Balance Plans," Contingencies American Academy of Actuaries (September-October 1999), page 28:

> There is nothing inherently wrong with cash balance plans, as long as employees have a clear and accurate picture of where they stand.
>
> Let me begin my critique of cash balance plans with a confession: I don't really believe there is anything inherently sinister about the concept of cash balance plans. It's merely one of many types of plans through which employers can help their employees save for retirement.

[6]Congress viewed this as an essential component of vesting. H.R. Rep. 93-807, at 21, explains that "How much protection is actually afforded to employees under the minimum vesting provision depends not only on the minimum vesting percentages set forth in the bill, but also in the case of defined benefits on the accrued benefit to which these minimum vesting percentages are applied". As an example, a requirement that benefits be vested after 5 years of service (one of the Code's standards) would be meaningless if a participant might accrue a benefit of only $1 per year for 19 years, and a benefit of $30,000 in the 20th year.

Cash balance plans generally seek to satisfy the 133 1/3% method of section 411(b)(1)(B). While there may be other ways in which to test whether a plan satisfies the 133 1/3% test, one method focuses on the participant's hypothetical account balance for the current year and projects it forward to normal retirement age using the interest crediting rates specified by the plan. This hypothetical account balance at normal retirement age is then converted to an annuity benefit, again using actuarial factors specified in the plan.[7] The annuity benefit as of the end of the prior year is also measured using the same method. The difference in the annuity benefits for the two years is then divided by the participant's compensation for the current year to determine the accrual rate for the year.[8] The accrued benefit and accrual rate for each year are calculated using this method, then compared. If the accrual rate for any year exceeds 133 1/3 percent of that for any prior year, the plan will fail to be qualified.

While cash balance plan conversions can satisfy the 133 1/3 percent test, the interplay of multiple benefit formulas, pay patterns, length of service, age of

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[7] Notice 96-8, 1996-1 C.B. 359.

[8] The following example illustrates this process:

Consider a participant that is 50 years old with a year-end hypothetical account balance of $60,000. The participant's compensation is $40,000, and the cash balance plan provides an annual pay credit of five percent of compensation. The cash balance plan provides that interest will be credited to the hypothetical account balance at a rate of six percent for purposes of projecting the account balance to normal retirement age. The plan also provides that the account balance at normal retirement age will be converted to an annuity using an annuity factor based on six percent interest and the 1983 GAM (GATT) mortality table for purposes of determining the accrued benefit. The 50 year old participant will have a projected account balance at normal retirement age (age 65) of $143,793, and an accrued benefit in the form of a single life annuity of $13,506 at age 65. The accrued benefit at age 50 of $13,506 is the result of dividing the projected account balance of $143,793 by an annuity factor of 10.646.

To calculate the accrued benefit at age 51, this same process is repeated. However, at age 51, the account balance has been increased by an additional pay credit of $2,000 (five percent of $40,000 compensation), and interest for one year on the $60,000 account balance ($3,600). Thus, the account balance at age 51 is $65,600 ($60,000 + $2,000 + $3,600). The now 51 year old participant will have a projected account balance at age 65 of $148,315, and an accrued benefit in the form of a single life annuity of $13,931 (equal to $148,315, divided by 10.646). The accrued benefit, therefore, has increased from $13,506 at age 50 to $13,931 at age 51, an increase of $425. The rate of benefit accrual as a percentage of compensation for this participant (assuming compensation remains unchanged) is $425 divided by $40,000, or 1.06%.

participants, and interest rates may result in accrual patterns that do not satisfy the rule. Moreover, whether a conversion satisfies this requirement will depend, in part, on the interplay of these factors, as well as on the plan's design; as a result, problems with the rate of accrual may not be apparent simply by reviewing the plan document. We are currently litigating a case in the Tax Court in which we have asserted in our answer filed with the Tax Court that this is a key tax-qualification defect. The case is Arndt v Commissioner of Internal Revenue and Onan Corporation, Dkt. 334-99"R".

Protection of Accrued Benefits. Section 411(d)(6) precludes an employer from amending a plan's benefit formula to reduce benefits that have already accrued through the date of the amendment.[9] Section 411(d)(6) not only protects the basic accrued benefit, but also protects other fundamental rights, for example, the right to receive an early retirement benefit.

While section 411(d)(6) provides substantial and definitive protection for accrued benefits, the scope of this protection is not unlimited. Most importantly, section 411(d)(6) does not protect benefits that have not yet been accrued but that would have been earned in the future if the plan's benefit formula had remained unchanged and the participant's employment had continued until normal retirement. In other words, an employee's expectation that a benefit formula will remain in effect until the employee retires is not protected by section 411(d)(6). Nor does section 411(d)(6) protect an employee's expectation that future compensation increases will be taken into account in computing an employee's benefits. It is well-established under current tax law that an employer may not only amend a plan to reduce the rate of future accruals, but may even terminate the plan entirely.

The general principles of section 411(d)(6) outlined above are also applicable in the context of cash balance plan conversions. Thus, the conversion to a cash balance formula with respect to future accruals will not violate section 411(d)(6) even though some employees accrue future benefits at a lower rate under the new formula, provided the post-conversion plan protects the benefits that participants had accrued under the original plan at the time of the conversion. Following conversion, a cash balance plan can be assured of satisfying the requirements of section 411(d)(6) if the plan separately and specifically provides that the benefits accrued as of the date of the conversion (including the optional forms of benefit) are protected, regardless of the level of benefits determined under the plan's new cash balance formula.

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[9] For example, if a plan benefit formula provides for an annuity payable at age 65 equal to 2 percent of the employee's 3 average high years of compensation for each year of service and an employee has completed 10 years of service at the time of an amendment, the employee has an accrued benefit equal to 20 percent of the employee's 3 average high years of compensation at the time of the amendment. This benefit is protected by section 411(d)(6).

Employers making cash balance plan conversions must promise each employee the greater of the protected benefits under the original defined benefit formula or the benefits calculated under the new cash balance formula. In practice, some may not. And, if a plan relies solely on the value of the hypothetical account balance to protect accrued benefits, the plan can encounter problems under section 411(d)(6) even if each employee's opening hypothetical account balance is equal to the present value of the employee's accrued basic retirement benefit under the original benefit formula (using the plan's interest and mortality assumptions for single sum distributions). For example, a cash balance plan that relies solely on the new benefit formula to satisfy the requirements of section 411(d)(6) may encounter problems if the interest rate used for interest credits is less at any point than the plan's interest rate used for calculating single sum distributions.

This analysis is equally applicable in conversions that result in some employees not accruing any additional benefits under the new plan formula for a number of years. This situation -- often referred to as "wear away" -- can arise when an employee's protected benefit under the original plan formula exceeds the benefit provided by the new plan formula. In these circumstances, the cash balance plan may provide that no additional benefits are accrued until the benefit under the new formula reaches the level of the old benefit protected under section 411(d)(6). But this wear away of the protected accrued benefit, standing alone, will not cause the plan to violate section 411(d)(6).

The substantive protections against reductions in benefits provided by section 411(d)(6) are complemented by the disclosure requirements of section 204(h) of ERISA. ERISA section 204(h) requires pension plans to notify participants of any amendment that will result in a significant reduction in the rate of future benefit accrual at least 15 days before the amendment takes effect. We recognize that concerns have been raised about the adequacy of these notices in the case of cash balance plan conversions. Several bills have been introduced in Congress that would expand the disclosure requirements for pension plans that are amended to reduce the rate of future benefit accruals. The Administration supports increased disclosure to employees.

Age Discrimination. The third potential tax law qualification issue that might be presented by cash balance plan conversions is whether they result in prohibited age discrimination. Section 411(b)(1)(H) prohibits a defined benefit plan from ceasing accruals, or reducing the rate of benefit accruals, "because of the attainment of any age." Likewise, section 411(b)(2) prohibits a defined contribution plan from ceasing allocations, or reducing the rate at which amounts are allocated, to a participants account, "because of the attainment of any age." Parallel provisions are found in section 204(b)(1)(H) of ERISA and in 29 U.S.C. section 623(i) (ADEA).

While these statutes clearly prohibit reductions in accruals "because of" the attainment of any age, they do not necessarily prohibit plan designs in which a reduction in accruals may be associated to some extent with the age of participants. Thus, a plan may place a cap on the total amount of benefits, or may limit the years of service or participation taken into account in determining benefits.[10] This is true even though these limits are inherently more likely to affect older employees. In addition, the rules governing qualified plans are specific that subsidized early retirement benefits, social security supplements, and disability benefits do not violate the age discrimination prohibitions, even though the value of such plan provisions to participants may decline with age.

The Service has not to date asserted that cash balance plan benefit formulas result in per se violations of the age discrimination requirements of section 411(b)(1)(H). In 1988, the IRS had issued proposed regulations to deal with many aspects of age discrimination under sections 411(b)(1)(H) and 411(b)(2). In general, these regulations provide that a plan will not violate the prohibition against age discrimination solely because of a positive correlation between increased age and a reduction or discontinuance in benefit accruals or account allocations under the plan. These regulations were proposed before significant numbers of cash balance plan conversions had occurred, and the special issues posed by cash balance plans were not considered or addressed at the time they were developed.

Our consideration of cash balance plans began in the early 1990's when we focused on the question of whether these plans satisfy the requirements of section 401(a)(4) that benefits or contributions not discriminate in favor of highly compensated employees. Regulations were issued in 1991 to address issues of discrimination in favor of highly compensated employees under section 401(a)(4). These regulations provide that cash balance plans meeting specified criteria (designed to protect employees' rights to benefits) would be treated as satisfying section 401(a)(4). This permits cash balance plans to use a defined contribution plan-type approach in testing whether benefits discriminate in favor of highly compensated as opposed to rank-and-file employees; this approach was based on the recognition that the benefit pattern under a cash balance plan closely parallels that under a defined contribution plan.[11]

While the text of the 1991 regulations does not address age discrimination, the preamble to the regulations does include a statement regarding age discrimination. Noting that commentators had requested that the regulations address cash balance plans, a hybrid plan design becoming increasingly popular, the preamble provides that --

> The final regulations have added a safe harbor testing method for cash balance plans. Because cash balance plans are defined benefit plans that calculate benefits in a manner similar to defined contribution plans, the safe harbor testing method is provided under the cross-testing rules of §1.401(a)(4)-8(c). The safe harbor testing method permits a cash

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[10] Section 411(b)(1)(H)(ii).

[11] Treas. Reg. section 1.401(a)(4)-8(c)(3).

balance plan to be tested on the basis of the hypothetical allocation formula used to determine an employee's cash balance, rather than on the actual benefits provided under the plan if certain conditions are satisfied. Among other requirements, the interest adjustments through normal retirement age must be accrued under the plan in the year the hypothetical allocation to which they relate is accrued, and interest adjustments must be determined using a fixed interest rate between 7.5 and 8.5 percent, or one of a list of variable interest rates provided in the regulations. The fact that interest adjustments through normal retirement age are accrued in the year of the related hypothetical allocation will not cause a cash balance plan to fail to satisfy the requirements of section 411(b)(1)(H), relating to age-based reductions in the rate at which benefits accrue under a plan. The safe harbor also imposes limitations on the granting of past service credit and the provision of subsidized optional forms of benefit.

The application of the age discrimination requirements of section 411(b)(1)(H) of the age discrimination requirements of section 411(b)(1)(H) involves a difficult analysis that may differ depending on the factual context of the plan being considered. In recent years we have seen rapid expansion of cash balance plan conversions in particular and we are now reviewing the issue of age discrimination in the context of these conversions in active coordination with the Equal Employment Opportunity Commission. In this analysis, we are considering the whole range of factors that might indicate a cash balance plan conversion has resulted in age discrimination. For example, we will consider the impact of the wear away period, as it affects employees of various ages. In the interim we have taken action to require that all cash balance plan conversions pending with the Service be forwarded to the National Office for technical advice. To put this action in context I would like to provide some background on the Service's administrative programs in the qualified plan area.

IRS ADMINISTRATIVE PROGRAMS FOR QUALIFIED PLANS

As the preceding discussion indicates, the tax law imposes numerous and intricate requirements in order for a retirement plan to receive the tax benefits of qualified plan status. The Internal Revenue Service has established two basic programs to ensure that plans comply with these rules and provide benefits to plan participants. One program involves the issuance of "determination letters" to plan sponsors that ask the IRS to review whether a plan, as designed, meets the qualification requirements; the other program involves the examination of plans after the fact to determine whether these requirements are met in practice. I will begin by describing the determination letter program and then turn to the examination program.

Determination Letter Program. The tax law specifically requires that qualified plans contain certain provisions in their governing legal documents. The Service has long permitted plan sponsors to submit their plans for review by specialists within the

Service to ensure that plan provisions comply with these requirements. This review focuses on the design of the plan as reflected in its governing legal documents, and a limited number of operational requirements, in order to determine whether the plan's basic design satisfies the law.[12] Upon completion of this review, the Service will issue a determination letter to the plan to confirm that it satisfies these requirements.

Although the determination letter program is voluntary, most plan sponsors ask the IRS to review and approve a plan's design. A plan sponsor typically requests a determination letter initially when the plan is started, again when the plan is amended either to comply with law changes or to change the plan design, and, finally, if the plan is terminated.[13] The number of determination letters processed each year varies substantially depending on whether plan sponsors have reached a deadline for amending their plan to comply with changes in the law. For example, when plans were amended to comply with law and regulatory changes that took place from 1986 though 1993, the IRS processed 185,000 cases in 1995 and 119,000 cases in 1996. For 1997, 1998 and 1999, however, the IRS processed an average of 46,000 cases a year. Approximately 8,000 of these cases would fall into the category requiring the most careful review.

A complex plan amendment, such as the conversion of a traditional defined benefit plan to a cash balance plan, requires more scrutiny than a less complex case. This type of determination letter application is typically handled by senior agents in our field offices, so that they can bring their experience to bear in evaluating these cases. However, because of the concerns that have been raised about the conversion of traditional defined benefit plans to cash benefit plans, we have recently taken an additional step to ensure that determination letters covering such conversions receive special scrutiny.

Thus, in addition to assigning these determination letters to senior agents in the

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[12] For example, the determination letter review includes an analysis of data on the number of the employer's employees who are receiving benefits under the plan and, if the plan provides benefits under different formulas, the number of participants and different compensation levels who receive benefits under those formulas. Beyond the basic review of data for coverage and nondiscrimination based on compensation, a plan's operational results are not scrutinized in the determination letter process.

[13] The determination program also reviews retroactive plan amendments. The Code provides a limited period of time for a plan sponsor retroactively to correct any provisions in plan amendments that might otherwise disqualify the plan. Currently, plan sponsors have until the last day of the plan year beginning in the year 2000 to apply for a determination letter for review of plan amendments, whether or not related to recent law changes if the amendment was adopted after December 7, 1994.

field, last week we instructed our field offices to request technical advice from our National Office in every determination letter case that involves a conversion of a traditional defined benefit plan formula to a cash balance formula. As part of this process, we expect to review data on participant accrual patterns resulting from the conversion. This centralized review process will enable us to consider carefully, on a consistent nationwide basis, all of the potential tax issues that may arise in conversions. It will, moreover, ensure that our consideration of possible age discrimination issues in particular cases is informed by our policy level discussions with the EEOC on this issue.

It is also important to note that the determination process provides opportunities for input from plan participants as well as the employer. The law requires employers to notify plan participants when they seek a determination that a plan design meets or continues to meet the requirements when the plan is started, amended, or terminated.[14] Following receipt of this notice, plan participants may submit comments about qualification issues arising under the plan. In deciding whether to issue a favorable determination letter, the Service carefully considers these participant comments, as well as the submission by the employer.

To complete my discussion of the determination letter program, let me describe the effect of a determination letter for the plan, the employer and the participants. A favorable determination letter is a statement that, in the opinion of the Internal Revenue Service, the terms of the plan document conform to the requirements of Internal Revenue Code section 401(a), and that the plan is considered qualified for tax purposes, under the law in effect at the time the letter is issued. While a determination may be revoked at a later time if the Service believes the letter was incorrect, the Service will generally not seek retroactive disqualification of a plan. Absent special circumstances, the IRS will permit an employer who received a favorable (but later revoked) determination letter to amend the plan to cure any subsequently discovered plan infirmities.

While a favorable determination letter thus provides substantial protection to employers and plans, it is important to note that the letter does not prevent plan participants from asserting their rights under the law. The law permits plan participants whose rights are violated by the terms of a plan (or a plan amendment) to recover benefits -- even if the plan had received a favorable ruling from the Service.[15]

IRS Examination Program. In addition to reviewing plan qualification issues in

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[14] Treas. Reg. section1.7476-2; Statement of Procedural Rules, section 601.201(o).

[15] See, e.g., Hickey v. Chicago Truck Drivers, Helpers and Warehouse Workers Union, 980 F.2d 465 (7th Cir., 1992).

advance at the request of plan sponsors through the determination letter program, the Service also maintains an active examination program for qualified plans. The qualified plan examination program functions much like the rest of the IRS' audit program: Examinations of qualified plans are initiated by Service (not the employer) based on selection criteria intended to focus our resources on areas where there is the highest potential for noncompliance. The examination will consider not only issues of plan design (as are also covered by the determination letter program) but also issues arising in the actual operation of the plan. For example, a plan may provide an appropriate vesting schedule, but in operation, plan participants may find that their benefits are forfeited in violation of the plan terms. Alternatively, a plan that facially appears to allocate benefits in accordance with tax law requirements may, because of the interplay of multiple benefit formulas, pay patterns, length of service, age of participants and interest rates, result in patterns of benefit accrual that are in conflict with Code requirements.

There are, however, two notable differences between the qualified plan examination program and the Service's other audit activities:

First, the focus of qualified plan examinations is not on revenue but on helping the plan comply with the law so that the participants will receive the benefits they have earned. Thus, when a problem is discovered in a plan audit, the Service will generally attempt to work with the plan sponsor to correct the defect; disqualification of the plan is used only as a last resort. To this end, the Service has established procedures for correcting plan defects, both before and after they are discovered on audit.[16]

Second, due to the highly specialized and technical nature of the issues presented in qualified plan examinations, these audits have been centralized in 4 key districts that cover the entire country (rather than spread among all 33 IRS districts). Moreover, in recognition of the concerns that have been raised by cash balance plan conversions, last week, we directed that any examination involving such a plan must request technical advice from the National Office. As I noted previously, having all cases (both examinations and determination letters) involving cash balance plan conversions reviewed in the National Office should enable us to more thoroughly consider both the technical and policy issues raised by these conversions.

CONCLUSION

Mr. Chairman, as the Committee is well aware, the conversion of traditional defined benefit plans to cash balance plans raises a number of complex and difficult questions that ultimately may need to be answered by reference to a wide range of policy considerations. I hope my brief overview of the potential tax issues these conversions may present under current law, together with my description of how the IRS

[16] Rev. Proc. 98-22, 1998-12 I.R.B. 11.

will be addressing these issues in the near term as we carry on our tax administration responsibilities, will be helpful to the Committee in its consideration of these important matters.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sirkin Stuart <Sirkin.Stuart@PBGC.GOV> (Sirkin Stuart <Sirkin.Stuart@PBGC.GOV> [UNKNOWN])

CREATION DATE/TIME:23-SEP-1999 12:57:21.00

SUBJECT: RE: Final version of tax papers

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])
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CC: Schub Judy <Schub.Judy@PBGC.GOV> (Schub Judy <Schub.Judy@PBGC.GOV> [UNKNOWN])
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CC: Healy Monica <Healy.Monica@PBGC.GOV> (Healy Monica <Healy.Monica@PBGC.GOV> [UNKNOWN])
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TEXT:
I'm not complaining but people here were surprised not to see mention of pensions in light of your phone call yesterday. Is it in another document, or did we get lucky?

-----Original Message-----
From: Sarah_Rosen_Wartell@opd.eop.gov
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Sent: Thursday, September 23, 1999 8:56 AM
To: Broderick_Johnson@who.eop.gov; Natasha_F._Bilimoria@opd.eop.gov; Sarah_Rosen_Wartell@opd.eop.gov; David_W._Beier%OVP@oa.eop.gov; Pieter_J._Boelhouwer%OVP@oa.eop.gov; Mark_D._Menchik@omb.eop.gov; Robin_L._Lumsdaine@cea.eop.gov; Laurence_R._Jacobson@omb.eop.gov; Bruce_D._Long@omb.eop.gov; Janet_R._Forsgren@omb.eop.gov; Bennie_C._Rogers@omb.eop.gov; Lisa_B._Fairhall@omb.eop.gov; Douglas_D._McCormick@omb.eop.gov; hinzr@pwba.dol.gov; kramerich-leslie@dol.gov; mcknight-avis@dol.gov; lebowita@pwba.dol.gov; lees@pwba.dol.gov; lindrewg@pwba.dol.gov; maroney-kevin@dol.gov; mcgahey-richard@dol.gov; watsons@pwba.dol.gov; montgomery-edward@dol.gov; holzer-harry@dol.gov; turner-john@dol.gov; akers-valerie@dol.gov; grant.joseph@pbgc.gov; healy.monica@pbgc.gov; schub.judy@pbgc.gov; gustafson.david@pbgc.gov; pacelli.jane@pbgc.gov; sirkin.stuart@pbgc.gov; krist.karen@pbgc.gov; william.bortz@do.treas.gov; lisa.andrews@do.treas.gov; mark.iwry@do.treas.gov; LEONARD.BURMAN@do.treas.gov; David.Richardson@do.treas.gov; gillian.hunter@do.treas.gov; paul.smith@do.treas.gov; deborah.walker@do.treas.gov; frank.toohey@do.treas.gov; harlan.weller@do.treas.gov; donald.wellington@do.treas.gov; amy.null@do.treas.gov; donna.shackleford@do.treas.gov; mark.iwry@do.treas.gov; jane.molloy@mail.doc.gov
Subject: Final version of tax papers

FYI -- These are public after POTUS makes his remarks.
---------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on 09/23/99

08:54 AM ---------------------------

Melissa G. Green
09/22/99 11:15:54 PM

Record Type: Record

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

cc:
Subject: Final version of tax papers

Please pass on
---------------------- Forwarded by Melissa G. Green/OPD/EOP on 09/22/99
11:10 PM ---------------------------

Jason Furman
09/22/99 11:06:33 PM

Record Type: Record

To: Patrick M. Dorton/OPD/EOP@EOP, Melissa G. Green/OPD/EOP@EOP

cc:
Subject: Final version of tax papers

Includes three documents:

1. President Clinton and Vice President Gore: A Responsible Budget That
Puts First Things First

2. Why the President Will Veto the Republican Tax Bill

3. The Predictable Consequence of the Republican Tax Cut Would Be To Divert
Hundreds of Billions of Dollars From the Social Security Lockbox and Debt
Reduction(See attached file: maintax1.doc)

Message Sent
To:____

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

CREATION DATE/TIME:23-SEP-1999 11:06:03.00

SUBJECT: Why the President Is Vetoing the Republican Tax Bill

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PRESIDENT CLINTON AND VICE PRESIDENT GORE: A RESPONSIBLE BUDGET THAT PUTS FIRST THINGS FIRST

September 22, 1999

President Clinton and Vice President Gore Have Proposed a Fiscally Responsible Budget Plan that Eliminates the Debt, Strengthens Social Security and Medicare, and Maintains Key Priorities like Education. Under the President's proposal:

- ✓ The debt held by the public would be repaid by 2015, resulting in lower interest rates and higher incomes.
- ✓ Medicare solvency would be secured for at least a quarter century and Medicare would be reformed to make it more efficient and competitive, and its benefits modernized with a new prescription drug benefit.
- ✓ The Social Security surplus would be dedicated to paying down the debt and solvency would be extended.
- ✓ The budget framework would invest in key priorities like education, environment, public safety, and national security, while keeping overall spending at tight but realistic levels.
- ✓ A fair and responsible tax cut would provide tax relief for middle-class Americans while helping them save for retirement.

The President's Balanced and Responsible Budget Will Help Keep the Economy Strong, Building on the Progress That He Has Made in Bringing America's Fiscal House Back in Order. The debt held by the public is now $1.7 trillion lower than it was projected to be when the President came into office. This achievement has kept interest rates down and confidence and investment up, contributing to the strongest American economy in generations.

- <u>By comparison, debt quadrupled under Reagan and Bush</u>. Under Presidents Reagan and Bush, the debt held by the public quadrupled, increasing from 26 percent of GDP in 1981 to 50 percent in 1993.
- <u>The surplus this year is the largest on record</u>. In 1992 the deficit was $290 billion and projected to grow to more than $400 billion this year. As a result of the decisive action the President took in 1993 and 1997, the budget surplus for this year is expected to be $99 billion, or 1.1 percent of GDP. This would be the largest dollar surplus on record, and the largest relative to GDP since 1951.
- <u>The largest pay-down of debt in history</u>. The Treasury Department recently announced that we will pay down $87 billion of debt held by the public this fiscal year. That is the largest pay-down of debt on record. In the last two years, we will have paid down $142 billion of debt held by the public.
- <u>Investment has boomed</u>. The benefits of fiscal discipline for our economy have been enormous. Interest rates are lower than they would have been otherwise, helping to fuel a 12.4 percent annual increase in producers durable equipment investment since 1993–compared to 3.1 percent annual growth from 1981-92.
- <u>Unemployment is the lowest in a generation</u>. The unemployment rate has fallen to 4.2 percent – the lowest level in 29 years – and the Nation has created more than 19 million jobs since January 1993.

President Clinton Has a Plan to Pay Down the National Debt by 2015. The President has proposed that we move Social Security surpluses entirely off-budget, reserving them to pay down the national debt and use the interest savings from debt reduction to extend the solvency of Social Security. Paying down the debt would be highly beneficial:

- <u>Interest payments would be eliminated</u>. Under the President's budget, we can pay down the debt held by the public by 2015. As a result, interest payments, once projected to eat up 28 percent of all federal spending in 2015, would also be eliminated.
- <u>Prepare for the retiring baby boomers</u>. Paying off the debt will free up funds for investment, help keep interest rates low, and boost workers' productivity and incomes. This fiscal discipline is the best way to prepare the government, and the Nation, to meet the challenge of the retiring baby boomers.

Strengthening and Modernizing Medicare, While Paying Down the Debt to Prepare for Our Future Obligations. On June 29, the President introduced a plan to strengthen and modernize the Medicare program and prepare it for the health, demographic, and financing challenges it faces in the 21st Century.

- Making Medicare more efficient and competitive. The President's plan will save an estimated $72 billion over 10 years by introducing greater competition between private health plans and traditional Medicare and adopting successful private sector tools for managing Medicare. It also invests $7.5 billion to restore some of the provider payment reductions from the Balanced Budget Act of 1997.
- Securing Medicare solvency for a quarter century. As part of this comprehensive reform package, the President's plan dedicates $328 billion of the non-Social Security surplus over 10 years to shore up Medicare's Hospital Insurance trust fund. These resources will be used to pay down additional debt held by the public and, together with the other reforms, this will extend solvency for at least a quarter century.
- Modernizing benefits. The President has proposed to modernize Medicare to provide an optional prescription drug benefit for all beneficiaries. About 75 percent of Medicare beneficiaries lack adequate, dependable, affordable private-sector coverage of prescription drugs.

President Clinton Has a Fiscally Responsible Plan to Extend the Solvency of Social Security.

- Keeping Social Security surpluses for Social Security. The President proposes to lock away all of the Social Security surplus, a step that would pay down debt and prepare the government, and the Nation, for the retirement of the baby boomers.
- Social Security solvency and debt reduction transfers. After a decade of debt reduction, the President's plan dedicates the interest savings resulting from this debt reduction to the Social Security Trust Fund. These fiscally prudent steps will pay down the government debt, reduce interest payments in the future, and provide resources to extend the solvency of Social Security by a half century.
- Working together to extend solvency for 75 years. In addition to using the savings from debt reduction for Social Security, the President has called for a bipartisan effort to make the reforms necessary to extend solvency to 2075 while dealing with poverty of older women and eliminating the retirement earnings test.

Maintaining Our Domestic Priorities, Including National Defense, Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- Funding for priorities. As part of a balanced and responsible framework with Social Security and Medicare reform, the President's budget allocates an additional $328 billion over the next ten years for discretionary spending beyond the levels provided in the 1997 Balanced Budget Act.
- Spending is kept below inflation. These spending plans are tight but realistic, *keeping overall discretionary spending growth slightly below inflation*, and domestic discretionary spending in 2009 roughly 10 percent below its current level adjusted for inflation.

The President Is Committed to Fair and Substantial Tax Cuts for Middle-Income Americans.

- The President proposes $250 billion of tax cuts targeted to the middle class. The President has proposed Universal Savings Accounts (USAs) which would provide a tax credit to help middle-income families save for retirement. The President's budget provides targeted tax relief to help families meet child care needs and provide long-term care for ill relatives, to help communities build modern schools, and to encourage investment in areas of our country which have not fully participated in our expansion.

WHY THE PRESIDENT WILL VETO THE REPUBLICAN TAX BILL

September 22, 1999

The President Has Said That the He Will Veto the Republican Tax Cut Because:

- It would likely drain hundreds of billions of dollars from the Social Security surplus, money that should have been used for debt reduction.
- It puts at risk our fiscal discipline and the continuing economic expansion.
- It would explode in cost, threatening our fiscal discipline and leaving America permanently in debt.
- It would leave no money to extend Medicare solvency or provide for prescription drugs.
- It would lead to an untenable reduction in domestic spending, with potentially huge cuts in education, law enforcement, public health, the environment, and veterans programs.
- It would be unfair to working Americans.

PROTECTING SOCIAL SECURITY SURPLUSES AND FISCAL DISCIPLINE

The Republican Tax Bill Would Likely Drain Hundreds of Billions of Dollars From the Social Security Surplus, Diverting Money From Debt Reduction While Not Extending The Solvency of Social Security By a Single Day.

- Uses the entire non-Social Security surplus. The Republican tax cut, without sunsets, would cost more than $850 billion over 10 years; with interest added it would use up the entire $996 billion non-Social Security surplus projected by the Congressional Budget Office.
- Uses Social Security surpluses after 2004. The Republican tax cut uses more than the entire on-budget surplus after 2004, forcing the Republicans to choose between using Social Security revenues to pay for their tax cut or making even larger cuts in education and other parts of core government.
- Predictable consequence of the tax and budget plan is to drain hundreds of billions of dollars from the Social Security surplus. The Republican budget resolution plans to cut defense and domestic discretionary spending by nearly $700 billion relative to the President's plan. Spending cuts of this magnitude would require a nearly 50 percent cut in non-defense discretionary spending in 2009. If these untenable cuts were not made, the consequence of the tax and budget plan would be to divert hundreds of billions of dollars of the Social Security surplus from promised debt reduction.
- The Republican plan would not extend Social Security solvency. The Republican plan does not extend solvency past 2034. Worse still, by diverting money from debt reduction it will make it even more difficult for the Nation to meet our obligations to future retirees.

The Republican Tax Cut, Assuming It Was Continued, Would Explode After 10 Years, Just When Social Security Begins To Come Under Strain and Medicare Approaches its Projected Insolvency (2015). The tax cut, together with funding for essential national defense, would leave America permanently in debt.

- Sunsets hide potential cost. To keep to a $792 billion tax cut, the Republicans sunset many of the major provisions after 2008; the result is that taxes *increase* by more than $60 billion in 2009 relative to their 2008 level. Reversing this implausible provision would bring the total cost to more than $850 billion.
- Cost would explode to $2.7 trillion in second decade. Projections by the Department of the Treasury indicate that the tax cut would cost $2.7 trillion between 2010 and 2019. The extra debt service associated with the tax would be another $1.4 trillion – bringing the total cost of the tax cut over the second 10 years to about $4 trillion.
- Cost, with interest, is $5 trillion over 20 years. If continued, the tax cut and the associated interest would cost $5 trillion over 20 years.
- Does not pay down the debt. The President's plan invests in key priorities and pays off the debt by 2015. If the Republican tax cut were continued, and defense was funded at the levels requested by the President, the debt would never be repaid.

The Republican Tax Bill Would Threaten Our Fiscal Discipline and Risk Our Economic Expansion.

- Paying down the debt is best for the economy. Leading experts, from Federal Reserve Chairman Alan Greenspan to Wall Street's Henry Kaufman, have recognized that paying down the debt, not large tax cuts or spending increases, would be best for our economy.
- President's plan would pay down more debt. The predictable consequence of the Republican tax and budget plan, because it ignores Medicare and requires 50 percent cuts in domestic spending, would be to contribute less to debt reduction than would the President's plan, resulting in less investment in the technologies and equipment that make America's workers the most productive – and the highest paid – in the world.
- Republican plan threatens our fiscal discipline. The commitment to a large and exploding tax cut *based merely on projected surpluses* threatens our commitment to fiscal discipline and risks raising interest rates.

NOTHING FOR MEDICARE

The Republican Plan Leaves Nothing for Medicare, Which Is Projected To Become Insolvent In 2015.

- Tax cut uses all non-Social Security surpluses. The Republican tax cut spends the entire non-Social Security surplus, leaving nothing for Medicare solvency.
- Substantial solvency for Medicare will require additional resources. Medicare experts agree that additional resources are needed to extend Medicare solvency substantially without risky cuts or higher payroll taxes.
- No surplus to modify 1997 reforms. Many Republican Members of Congress have supported increasing Medicare spending by repealing some Balanced Budget Act of 1997 provisions. If none of the surplus is saved for Medicare, even larger cuts in hospitals and nursing homes would be required to extend solvency.

LARGE CUTS IN MEDICARE AND CORE GOVERNMENT

As Written, GOP Tax Bill Would Also Trigger Automatic Across-The-Board Cuts That Would Cut Medicare & Entirely Eliminate Key Programs.

- Triggers mandatory cuts. The Republican tax cut, as written, would trigger across-the-board spending cuts in mandatory programs (known as sequestration) under the Budget Enforcement Act's pay-as-you-go rules.
- Cuts Medicare. These cuts would eliminate $41.4 billion from Medicare over the next 5 years (2000-2004), according to an Office of Management and Budget analysis.
- Eliminates key programs. These cuts would automatically eliminate several key programs, including farm safety net programs (cut by $19.2 billion), veterans education and training (cut by $2.0 billion), child support enforcement (cut by $10.3 billion), and Social Service Block Grants that pay for child protection, child care, and the needs of the elderly and disabled ($4.4 billion).
- Even these cuts would not pay for the tax cut. Even the reduction or elimination of these programs would offset only a small fraction of the Republican tax cut; the remainder would force choices between large and untenable cuts in core government or diverting Social Security funds from promised debt reduction.

The Republican Tax Cut Is Based On Untenable Reductions in Domestic Priorities, Including Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- President's spending is tight but realistic. The President's budget devotes $328 billion to discretionary spending, which still keeps spending slightly below its current level adjusted for inflation. Domestic discretionary spending will be kept roughly 10 percent below its current level adjusted for inflation by 2009.
- 50 percent cuts under Republican plan. The Republican tax and budget plan, if they match the President's defense request, would lead to a nearly 50 percent cut in all domestic discretionary spending in 2009. This could require massive cuts in everything from education, to the environment, to public safety.
- Predictable consequence is less debt reduction. If these highly damaging cuts are not made, the Republican tax and budget plan would divert hundreds of billions of dollars from promised debt reduction.

UNFAIR TO WORKING AMERICANS

The Large Republican Plan Delivers Only a Fraction of Its Benefits to the Middle Class; Even These Benefits Could Be More than Wiped Out by the Higher Interest Rates That Could Result from this Fiscally Irresponsible Policy.

- Little tax relief for the middle class. Under the Republican tax plan, 24 percent of the tax cuts go to the top 1 percent of families, those earning over $347,000 per year. At the same time, less than 22 percent of the benefits go to the roughly 90 million families – 80 percent of all families – earning less than $82,000 per year.
- Higher mortgage payments could reverse tax break. Under the Republican plan, middle-income families will see an average tax reduction of about $350. *If mortgage rates rose even ½ percentage point, this tax break would be fully offset by higher mortgage payments* for a typical middle-income family with a $100,000 mortgage.
- Estate tax elimination provides large benefits to a few, just years before Medicare is projected to become insolvent. Eliminating all estate tax revenues for 2009 would cost almost $36 billion, which would provide an average benefit of over $700,000 to the roughly 50,000 estates – less than 2 percent of all deaths – subject to taxes. At the same time, if no steps are taken, the Medicare trust fund will start to be depleted and will become insolvent in 2015.

THE PREDICTABLE CONSEQUENCE OF THE REPUBLICAN TAX CUT WOULD BE TO DIVERT HUNDREDS OF BILLIONS OF DOLLARS FROM THE SOCIAL SECURITY LOCKBOX AND DEBT REDUCTION

September 22, 1999

The Republican Tax Cut, With Interest, Would Break the Social Security "Lockbox" After 2004 as shown in the table below.

	2005	2006	2007	2008	2009
Non-Social Security Surplus (CBO)	92	129	146	157	178
Republican Tax Cut*	85	117	140	168	188
Additional Interest From Tax Cut	11	16	24	33	44
Social Security Surplus Diverted From Debt Reduction	-4	-4	-18	-44	-54

*Assumes that the full tax cut is continued after 2008.

To Avoid Using Social Security Surpluses, the Republican Tax and Budget Plan Is Forced To Cut All Domestic Discretionary Spending by Nearly Half in 2009 (assuming that defense is funded at the President's level). This could require cuts of nearly 50 percent in everything from air traffic safety to education to healthcare to veterans programs.

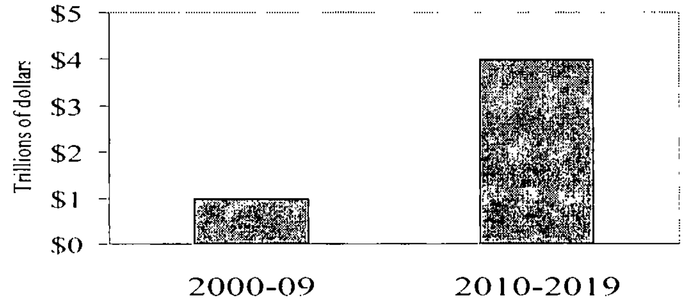
- The Republican budget resolution sets aside $606 billion for all discretionary spending in 2009. If the Republicans fund defense at the levels requested by the President ($384 billion in 2009), they would be able to devote only $222 billion to all domestic spending, including education, healthcare, and veterans programs, in 2009. This is substantially below the roughly $304 billion spent on non-defense discretionary spending in 1999. This represents a nearly 50 percent cut relative to 1999 levels adjusted for inflation.

If These Unfeasible and Undesirable Cuts Are Not Made, then the Republican Tax Cut Would Spend Hundreds of Billions of Dollars from the Social Security Surplus. Under highly conservative assumptions, even with large discretionary spending cuts, the fully phased in Republican tax cut would divert Social Security surpluses from debt reduction, leaving the debt hundreds of billions of dollars higher than the President's plan.

The Republican Tax Cut, If Continued, Would Leave America Permanently In Debt. It is unrealistic to assume that the Republican tax cut will be reversed. If the tax cuts were continued:

- The cost of the tax bill would explode just when the baby boomers begin to retire, Medicare becomes insolvent (2015), and Social Security payroll revenues begin to fall short of benefits.
- The cost between 2010 and 2019 would be $2.7 trillion, according to projections by the Treasury Department. The total cost, including lost interest savings, would be over $4 trillion.
- The total cost over the 20 years between 2000 and 2019, including interest, would be about $5 trillion.
- The debt held by the public would not be eliminated (assuming defense is funded at the level requested by the President).

The Exploding Republican Tax Cut



Note: Cost with interest, assuming tax cut is continued.

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

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

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

TO: Bennie C. Rogers (CN=Bennie C. Rogers/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

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

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

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

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

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

TEXT:
FYI -- These are public after POTUS makes his remarks.
---------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on
09/23/99 08:54 AM ---------------------------

Melissa G. Green
09/22/99 11:15:54 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Final version of tax papers

Please pass on
---------------------- Forwarded by Melissa G. Green/OPD/EOP on 09/22/99
11:10 PM ---------------------------

Jason Furman
09/22/99 11:06:33 PM
Record Type: Record

To: Patrick M. Dorton/OPD/EOP@EOP, Melissa G. Green/OPD/EOP@EOP
cc:
Subject: Final version of tax papers

Includes three documents:

1. President Clinton and Vice President Gore: A Responsible Budget That Puts First Things First

2. Why the President Will Veto the Republican Tax Bill

3. The Predictable Consequence of the Republican Tax Cut Would Be To Divert Hundreds of Billions of Dollars From the Social Security Lockbox and Debt Reduction

Message Sent
To:____
Michele Ballantyne/WHO/EOP@EOP
Gay L. Joshlyn/OPD/EOP@EOP
Sarah Rosen Wartell/OPD/EOP@EOP
Jonathan A. Kaplan/OPD/EOP@EOP
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Lisa_Panasiti@ed.gov@INET@LNGTWY

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D86]ARMS21808266P.236 to ASCII,
The following is a HEX DUMP:

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

PRESIDENT CLINTON AND VICE PRESIDENT GORE:
A RESPONSIBLE BUDGET THAT PUTS FIRST THINGS FIRST

September 22, 1999

President Clinton and Vice President Gore Have Proposed a Fiscally Responsible Budget Plan that Eliminates the Debt, Strengthens Social Security and Medicare, and Maintains Key Priorities like Education. Under the President's proposal:

- ✓ The debt held by the public would be repaid by 2015, resulting in lower interest rates and higher incomes.
- ✓ Medicare solvency would be secured for at least a quarter century and Medicare would be reformed to make it more efficient and competitive, and its benefits modernized with a new prescription drug benefit.
- ✓ The Social Security surplus would be dedicated to paying down the debt and solvency would be extended.
- ✓ The budget framework would invest in key priorities like education, environment, public safety, and national security, while keeping overall spending at tight but realistic levels.
- ✓ A fair and responsible tax cut would provide tax relief for middle-class Americans while helping them save for retirement.

The President's Balanced and Responsible Budget Will Help Keep the Economy Strong, Building on the Progress That He Has Made in Bringing America's Fiscal House Back in Order. The debt held by the public is now $1.7 trillion lower than it was projected to be when the President came into office. This achievement has kept interest rates down and confidence and investment up, contributing to the strongest American economy in generations.

- By comparison, debt quadrupled under Reagan and Bush. Under Presidents Reagan and Bush, the debt held by the public quadrupled, increasing from 26 percent of GDP in 1981 to 50 percent in 1993.
- The surplus this year is the largest on record. In 1992 the deficit was $290 billion and projected to grow to more than $400 billion this year. As a result of the decisive action the President took in 1993 and 1997, the budget surplus for this year is expected to be $99 billion, or 1.1 percent of GDP. This would be the largest dollar surplus on record, and the largest relative to GDP since 1951.
- The largest pay-down of debt in history. The Treasury Department recently announced that we will pay down $87 billion of debt held by the public this fiscal year. That is the largest pay-down of debt on record. In the last two years, we will have paid down $142 billion of debt held by the public.
- Investment has boomed. The benefits of fiscal discipline for our economy have been enormous. Interest rates are lower than they would have been otherwise, helping to fuel a 12.4 percent annual increase in producers durable equipment investment since 1993–compared to 3.1 percent annual growth from 1981-92.
- Unemployment is the lowest in a generation. The unemployment rate has fallen to 4.2 percent – the lowest level in 29 years – and the Nation has created more than 19 million jobs since January 1993.

President Clinton Has a Plan to Pay Down the National Debt by 2015. The President has proposed that we move Social Security surpluses entirely off-budget, reserving them to pay down the national debt and use the interest savings from debt reduction to extend the solvency of Social Security. Paying down the debt would be highly beneficial:

- Interest payments would be eliminated. Under the President's budget, we can pay down the debt held by the public by 2015. As a result, interest payments, once projected to eat up 28 percent of all federal spending in 2015, would also be eliminated.
- Prepare for the retiring baby boomers. Paying off the debt will free up funds for investment, help keep interest rates low, and boost workers' productivity and incomes. This fiscal discipline is the best way to prepare the government, and the Nation, to meet the challenge of the retiring baby boomers.

Strengthening and Modernizing Medicare, While Paying Down the Debt to Prepare for Our Future Obligations. On June 29, the President introduced a plan to strengthen and modernize the Medicare program and prepare it for the health, demographic, and financing challenges it faces in the 21st Century.

- Making Medicare more efficient and competitive. The President's plan will save an estimated $72 billion over 10 years by introducing greater competition between private health plans and traditional Medicare and adopting successful private sector tools for managing Medicare. It also invests $7.5 billion to restore some of the provider payment reductions from the Balanced Budget Act of 1997.
- Securing Medicare solvency for a quarter century. As part of this comprehensive reform package, the President's plan dedicates $328 billion of the non-Social Security surplus over 10 years to shore up Medicare's Hospital Insurance trust fund. These resources will be used to pay down additional debt held by the public and, together with the other reforms, this will extend solvency for at least a quarter century.
- Modernizing benefits. The President has proposed to modernize Medicare to provide an optional prescription drug benefit for all beneficiaries. About 75 percent of Medicare beneficiaries lack adequate, dependable, affordable private-sector coverage of prescription drugs.

President Clinton Has a Fiscally Responsible Plan to Extend the Solvency of Social Security.

- Keeping Social Security surpluses for Social Security. The President proposes to lock away all of the Social Security surplus, a step that would pay down debt and prepare the government, and the Nation, for the retirement of the baby boomers.
- Social Security solvency and debt reduction transfers. After a decade of debt reduction, the President's plan dedicates the interest savings resulting from this debt reduction to the Social Security Trust Fund. These fiscally prudent steps will pay down the government debt, reduce interest payments in the future, and provide resources to extend the solvency of Social Security by a half century.
- Working together to extend solvency for 75 years. In addition to using the savings from debt reduction for Social Security, the President has called for a bipartisan effort to make the reforms necessary to extend solvency to 2075 while dealing with poverty of older women and eliminating the retirement earnings test.

Maintaining Our Domestic Priorities, Including National Defense, Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- Funding for priorities. As part of a balanced and responsible framework with Social Security and Medicare reform, the President's budget allocates an additional $328 billion over the next ten years for discretionary spending beyond the levels provided in the 1997 Balanced Budget Act.
- Spending is kept below inflation. These spending plans are tight but realistic, *keeping overall discretionary spending growth slightly below inflation*, and domestic discretionary spending in 2009 roughly 10 percent below its current level adjusted for inflation.

The President Is Committed to Fair and Substantial Tax Cuts for Middle-Income Americans.

- The President proposes $250 billion of tax cuts targeted to the middle class. The President has proposed Universal Savings Accounts (USAs) which would provide a tax credit to help middle-income families save for retirement. The President's budget provides targeted tax relief to help families meet child care needs and provide long-term care for ill relatives, to help communities build modern schools, and to encourage investment in areas of our country which have not fully participated in our expansion.

WHY THE PRESIDENT WILL VETO THE REPUBLICAN TAX BILL

September 22, 1999

The President Has Said That the He Will Veto the Republican Tax Cut Because:

- It would likely drain hundreds of billions of dollars from the Social Security surplus, money that should have been used for debt reduction.
- It puts at risk our fiscal discipline and the continuing economic expansion.
- It would explode in cost, threatening our fiscal discipline and leaving America permanently in debt.
- It would leave no money to extend Medicare solvency or provide for prescription drugs.
- It would lead to an untenable reduction in domestic spending, with potentially huge cuts in education, law enforcement, public health, the environment, and veterans programs.
- It would be unfair to working Americans.

PROTECTING SOCIAL SECURITY SURPLUSES AND FISCAL DISCIPLINE

The Republican Tax Bill Would Likely Drain Hundreds of Billions of Dollars From the Social Security Surplus, Diverting Money From Debt Reduction While Not Extending The Solvency of Social Security By a Single Day.

- Uses the entire non-Social Security surplus. The Republican tax cut, without sunsets, would cost more than $850 billion over 10 years; with interest added it would use up the entire $996 billion non-Social Security surplus projected by the Congressional Budget Office.
- Uses Social Security surpluses after 2004. The Republican tax cut uses more than the entire on-budget surplus after 2004, forcing the Republicans to choose between using Social Security revenues to pay for their tax cut or making even larger cuts in education and other parts of core government.
- Predictable consequence of the tax and budget plan is to drain hundreds of billions of dollars from the Social Security surplus. The Republican budget resolution plans to cut defense and domestic discretionary spending by nearly $700 billion relative to the President's plan. Spending cuts of this magnitude would require a nearly 50 percent cut in non-defense discretionary spending in 2009. If these untenable cuts were not made, the consequence of the tax and budget plan would be to divert hundreds of billions of dollars of the Social Security surplus from promised debt reduction.
- The Republican plan would not extend Social Security solvency. The Republican plan does not extend solvency past 2034. Worse still, by diverting money from debt reduction it will make it even more difficult for the Nation to meet our obligations to future retirees.

The Republican Tax Cut, Assuming It Was Continued, Would Explode After 10 Years, Just When Social Security Begins To Come Under Strain and Medicare Approaches its Projected Insolvency (2015). The tax cut, together with funding for essential national defense, would leave America permanently in debt.

- Sunsets hide potential cost. To keep to a $792 billion tax cut, the Republicans sunset many of the major provisions after 2008; the result is that taxes *increase* by more than $60 billion in 2009 relative to their 2008 level. Reversing this implausible provision would bring the total cost to more than $850 billion.
- Cost would explode to $2.7 trillion in second decade. Projections by the Department of the Treasury indicate that the tax cut would cost $2.7 trillion between 2010 and 2019. The extra debt service associated with the tax would be another $1.4 trillion – bringing the total cost of the tax cut over the second 10 years to about $4 trillion.
- Cost, with interest, is $5 trillion over 20 years. If continued, the tax cut and the associated interest would cost $5 trillion over 20 years.
- Does not pay down the debt. The President's plan invests in key priorities and pays off the debt by 2015. If the Republican tax cut were continued, and defense was funded at the levels requested by the President, the debt would never be repaid.

The Republican Tax Bill Would Threaten Our Fiscal Discipline and Risk Our Economic Expansion.

- Paying down the debt is best for the economy. Leading experts, from Federal Reserve Chairman Alan Greenspan to Wall Street's Henry Kaufman, have recognized that paying down the debt, not large tax cuts or spending increases, would be best for our economy.
- President's plan would pay down more debt. The predictable consequence of the Republican tax and budget plan, because it ignores Medicare and requires 50 percent cuts in domestic spending, would be to contribute less to debt reduction than would the President's plan, resulting in less investment in the technologies and equipment that make America's workers the most productive – and the highest paid – in the world.
- Republican plan threatens our fiscal discipline. The commitment to a large and exploding tax cut *based merely on projected surpluses* threatens our commitment to fiscal discipline and risks raising interest rates.

NOTHING FOR MEDICARE

The Republican Plan Leaves Nothing for Medicare, Which Is Projected To Become Insolvent In 2015.

- Tax cut uses all non-Social Security surpluses. The Republican tax cut spends the entire non-Social Security surplus, leaving nothing for Medicare solvency.
- Substantial solvency for Medicare will require additional resources. Medicare experts agree that additional resources are needed to extend Medicare solvency substantially without risky cuts or higher payroll taxes.
- No surplus to modify 1997 reforms. Many Republican Members of Congress have supported increasing Medicare spending by repealing some Balanced Budget Act of 1997 provisions. If none of the surplus is saved for Medicare, even larger cuts in hospitals and nursing homes would be required to extend solvency.

LARGE CUTS IN MEDICARE AND CORE GOVERNMENT

As Written, GOP Tax Bill Would Also Trigger Automatic Across-The-Board Cuts That Would Cut Medicare & Entirely Eliminate Key Programs.

- Triggers mandatory cuts. The Republican tax cut, as written, would trigger across-the-board spending cuts in mandatory programs (known as sequestration) under the Budget Enforcement Act's pay-as-you-go rules.
- Cuts Medicare. These cuts would eliminate $41.4 billion from Medicare over the next 5 years (2000-2004), according to an Office of Management and Budget analysis.
- Eliminates key programs. These cuts would automatically eliminate several key programs, including farm safety net programs (cut by $19.2 billion), veterans education and training (cut by $2.0 billion), child support enforcement (cut by $10.3 billion), and Social Service Block Grants that pay for child protection, child care, and the needs of the elderly and disabled ($4.4 billion).
- Even these cuts would not pay for the tax cut. Even the reduction or elimination of these programs would offset only a small fraction of the Republican tax cut; the remainder would force choices between large and untenable cuts in core government or diverting Social Security funds from promised debt reduction.

The Republican Tax Cut Is Based On Untenable Reductions in Domestic Priorities, Including Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- President's spending is tight but realistic. The President's budget devotes $328 billion to discretionary spending, which still keeps spending slightly below its current level adjusted for inflation. Domestic discretionary spending will be kept roughly 10 percent below its current level adjusted for inflation by 2009.
- 50 percent cuts under Republican plan. The Republican tax and budget plan, if they match the President's defense request, would lead to a nearly 50 percent cut in all domestic discretionary spending in 2009. This could require massive cuts in everything from education, to the environment, to public safety.
- Predictable consequence is less debt reduction. If these highly damaging cuts are not made, the Republican tax and budget plan would divert hundreds of billions of dollars from promised debt reduction.

UNFAIR TO WORKING AMERICANS

The Large Republican Plan Delivers Only a Fraction of Its Benefits to the Middle Class; Even These Benefits Could Be More than Wiped Out by the Higher Interest Rates That Could Result from this Fiscally Irresponsible Policy.

- Little tax relief for the middle class. Under the Republican tax plan, 24 percent of the tax cuts go to the top 1 percent of families, those earning over $347,000 per year. At the same time, less than 22 percent of the benefits go to the roughly 90 million families – 80 percent of all families – earning less than $82,000 per year.
- Higher mortgage payments could reverse tax break. Under the Republican plan, middle-income families will see an average tax reduction of about $350. *If mortgage rates rose even ½ percentage point, this tax break would be fully offset by higher mortgage payments* for a typical middle-income family with a $100,000 mortgage.
- Estate tax elimination provides large benefits to a few, just years before Medicare is projected to become insolvent. Eliminating all estate tax revenues for 2009 would cost almost $36 billion, which would provide an average benefit of over $700,000 to the roughly 50,000 estates – less than 2 percent of all deaths – subject to taxes. At the same time, if no steps are taken, the Medicare trust fund will start to be depleted and will become insolvent in 2015.

THE PREDICTABLE CONSEQUENCE OF THE REPUBLICAN TAX CUT WOULD BE TO DIVERT HUNDREDS OF BILLIONS OF DOLLARS FROM THE SOCIAL SECURITY LOCKBOX AND DEBT REDUCTION

September 22, 1999

The Republican Tax Cut, With Interest, Would Break the Social Security "Lockbox" After 2004 as shown in the table below.

	2005	2006	2007	2008	2009
Non-Social Security Surplus (CBO)	92	129	146	157	178
Republican Tax Cut*	85	117	140	168	188
Additional Interest From Tax Cut	11	16	24	33	44
Social Security Surplus Diverted From Debt Reduction	-4	-4	-18	-44	-54

*Assumes that the full tax cut is continued after 2008.

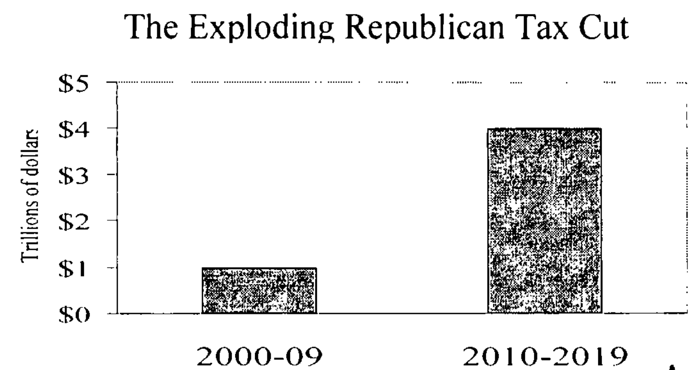
To Avoid Using Social Security Surpluses, the Republican Tax and Budget Plan Is Forced To Cut All Domestic Discretionary Spending by Nearly Half in 2009 (assuming that defense is funded at the President's level). This could require cuts of nearly 50 percent in everything from air traffic safety to education to healthcare to veterans programs.

- The Republican budget resolution sets aside $606 billion for all discretionary spending in 2009. If the Republicans fund defense at the levels requested by the President ($384 billion in 2009), they would be able to devote only $222 billion to all domestic spending, including education, healthcare, and veterans programs, in 2009. This is substantially below the roughly $304 billion spent on non-defense discretionary spending in 1999. This represents a nearly 50 percent cut relative to 1999 levels adjusted for inflation.

If These Unfeasible and Undesirable Cuts Are Not Made, then the Republican Tax Cut Would Spend Hundreds of Billions of Dollars from the Social Security Surplus. Under highly conservative assumptions, even with large discretionary spending cuts, the fully phased in Republican tax cut would divert Social Security surpluses from debt reduction, leaving the debt hundreds of billions of dollars higher than the President's plan.

The Republican Tax Cut, If Continued, Would Leave America Permanently In Debt. It is unrealistic to assume that the Republican tax cut will be reversed. If the tax cuts were continued:

- The cost of the tax bill would explode just when the baby boomers begin to retire, Medicare becomes insolvent (2015), and Social Security payroll revenues begin to fall short of benefits.
- The cost between 2010 and 2019 would be $2.7 trillion, according to projections by the Treasury Department. The total cost, including lost interest savings, would be over $4 trillion.
- The total cost over the 20 years between 2000 and 2019, including interest, would be about $5 trillion.
- The debt held by the public would not be eliminated (assuming defense is funded at the level requested by the President).



Note: Cost with interest, assuming tax cut is continued.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-SEP-1999 14:43:04.00

SUBJECT: Re: Pensions working group

TO: Gay L. Joshlyn (CN=Gay L. Joshlyn/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

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

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

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

CC: sarah rosen wartell (CN=sarah rosen wartell/OU=opd/O=eop@eop [OPD])
READ:UNKNOWN

TEXT:
Works fine for me -- thanks.

Gay L. Joshlyn
09/27/99 02:40:28 PM
Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP@EOP
cc: See the distribution list at the bottom of this message
bcc:
Subject: Re: Pensions working group

Is Thursday afternoon ok?

Sarah Rosen Wartell
09/27/99 09:45:59 AM
Record Type: Record

To: Mark D. Menchik/OMB/EOP@EOP
cc: gay l. joshlyn/opd/eop@eop, kramerich-leslie@dol.gov,
bkeisler@dol.gov@inet, larry r. matlack/omb/eop@eop

bcc:
Subject: Re: Pensions working group

gay -- Please find another time. thanks.

Mark D. Menchik 09/25/99 11:13:26 AM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP@EOP
cc: Gay L. Joshlyn/OPD/EOP@EOP, kramerich-leslie@dol.gov, bkeisler@dol.gov@inet, Larry R. Matlack/OMB/EOP@EOP
bcc:
Subject: Re: Pensions working group

On Thursday morning, 10-12, I and several of the PWBA members will be at a budget meeting at DOL. Is another time possible?

Sarah Rosen Wartell
09/24/99 06:55:48 PM
Record Type: Record

To: Gay L. Joshlyn/OPD/EOP@EOP
cc: See the distribution list at the bottom of this message
Subject: Pensions working group

Please schedule a pensions working group "update" meeting for next Thursday morning. Please advise folks of the time and place. Thanks.

Message Copied
To:

Joel K. Wiginton/WHO/EOP@EOP
Broderick Johnson/WHO/EOP@EOP
Natasha F. Bilimoria/OPD/EOP@EOP
Sarah Rosen Wartell/OPD/EOP@EOP
David W. Beier/OVP@OVP
Pieter J. Boelhouwer/OVP@OVP
Mark D. Menchik/OMB/EOP@EOP
Robin L. Lumsdaine/CEA/EOP@EOP
Laurence R. Jacobson/OMB/EOP@EOP
Bruce D. Long/OMB/EOP@EOP
Janet R. Forsgren/OMB/EOP@EOP
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jane.molloy@mail.doc.gov

Message Copied
To:____
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gay l. joshlyn/opd/eop@eop
kramerich-leslie@dol.gov
bkeisler@dol.gov@inet
larry r. matlack/omb/eop@eop

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:12-OCT-1999 13:43:09.00

SUBJECT: more on 415 limits

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

TEXT:
First, Rick Magahey is preparing a short note for you that is good, but states something slightly differently than my earlier note. I think we are both right. My note assumes that the AFL was asking for multiemployer beneficiaries to get better treatment than other special categories (merchant marines, gov't, non-profits) and Mahgehy's suggests that the AFL was proposing to be added to the special category list and then increase the limits for everyone in that group. At different times, they have argued both. The last paper we had for them is as Magehey describes.

Second, on cost: OMB internal estimates for what we proposed in the VP's letter were $10-40 million over 10 years (not refined more precisely than that -- over 5 years would be about a third). They assume that they additional increment added by the AFL's further proposal would be a fraction of that but no precise estimates have been done.

AFL, using Joint Tax Committee figures, estimated that their whole proposal would cost less than $37 million over 5 years, $81 million over 10. However, we include in our baseline some of these costs.

Third, we understand that the AFL-CIO is arguing that this change is necessary to restore a historical ratio between the early retirement limit and the regular retirement limit. Treasury argues that the relationship is irrelevant to the point. Some history: In 1974, for the first time Congress imposed a cap on benefits. At that time, the cap was the same whether you retired at 55 or 65 -- there was no actuarial reduction. Later, in 1982, they recognized that a retirement benefit level at age 55 was worth more than the same benefit at 65 and imposed an actuarial reduction in the cap. However, they imposed a transitional rule to help phase in the cap and prevent harm to those in the interim. The transitional rule created a floor of $75,000 for early retirement benefits for everyone. In 1986, they left the frozen transitional floor in place for just a few special categories of beneficiaries -- gov't and non-profits and merchant marines. That floor was not indexed, but the normal retirement age cap was. Over time, that floor became irrelevant, as the normal retirement age actuarily reduced for early retirement rose above $75,000. (Other aspects of the special treatment for that group -- reducing from age 62 level rather than the age 65 level and thus giving a 25% larger benefit -- remains relevant.)

Thus, Treasury argues that (1) these limits are extremely generous for pensions benefiting from tax subidies as we propose to change them; and

(2) the historical relationship they advance his no policy basis; and (3) whatever the merits of that number, it never before applied to multiemployer plans so arguing for them is besides the point.

Fourth, one clarification to my point about the views of various agencies. PBGC thinks that all these benefit caps should be raised. They question the policy justification for raising them for multiemployer plans and no other. Thus, they support the administration position reflected in the VP letter. But they argue that all the limits should be increased together to help give highly compensated employees a stake in the company's pension plan and thus incent employers to continue to provide DB plans, thus indirectly benefitting low wage workers. (Others -- including Treasury and the Center on Budget and Policy Priorities -- dispute that conclusion. We have agreed to disagree internally for the time being.)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ellen Nissenbaum <nissenbaum@cbpp.org> (Ellen Nissenbaum <nissenbaum@cbpp.org> [UNKNOWN])

CREATION DATE/TIME:14-OCT-1999 17:47:39.00

SUBJECT: FW: another pension meeting

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

TEXT:
Sarah: this bounced back first time, so sending it again.

Left you a voice mail when you get a chance.

Good news is some Dems may write to the WH to express their concern with these pension items.

When we did a conf call today with editorial writers, the USA Today guy seemed to know of the PBGC's support of some of the higher inc limits!

From: Ellen Nissenbaum
Sent: Thursday, October 14, 1999 1:12 PM
To: 'peter orszag'; Iris Lav
Cc: 'sarah rosen wartel'; 'mark iwry'; 'chuck marr'; 'stan fendley'
Subject: another pension meeting
Importance: High

Great news: Diane Bennet has agreed to join us for the staff briefing(s?) on Tuesday. Did you see her excellent testimony, Peter?

I've arranged a private session with Rockefeller and Conrad's staff at 12:30 on Tuesday (w/sandwiches before the 1:30 briefing).

In talking to the staff, I was surprised to learn from Steve Bailey with Conrad that the Senator enthusiastically supports increasing the income limits on the DB plans as a way of maintaining DB plans in the future. Thinks as a practical business decision you have to continue to provide incentives to employers... your old "trickle down" argument [our terms, not his]. Conrad does share our views on the IRAs. Remember, David Strauss is a N. Dakotan and former Senate AA. Has a lot of influence over certain Senators.

Nonetheless, Steve wants to join us. (I often do things together with Rock/Conrad's tax staff... they usually think alike, but obviously not always).
I'm hopeful that Rock will be more willing to engage on the overall set of pension issues.

Peter: here's the final schedule for Tuesday

Press conf a.m.
Kerry office: 11:30
Rock/Conrad: 12:30
Briefing for Sen staff: 1:30
Kennedy team: 3:00
House briefing: 4:00

I had two more key meetings I wanted to arrange but just used up Peter's last hour. Iris and I will do other meetings next week.

We'll work out with you and Iris all the presentation, etc.

Stan: thanks, we'd love an easel for the briefing. We do now have at least one blow up chart.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-OCT-1999 09:09:47.00

SUBJECT: FW: Center for Budget and Policy briefings on Pension Provisions

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

TEXT:
---------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on
10/20/99 09:09 AM ---------------------------

McGahey Richard <McGahey-Richard@dol.gov>
10/20/99 08:50:23 AM
Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP
cc:
Subject: FW: Center for Budget and Policy briefings on Pension Provisions

Sarah--

FYI, here is a report from our Congressional Affairs office on the
CBPP/Orszag briefings with Congressional staff. One troubling point:
notice in the House briefing that Cardin's staffer invokes David Strauss
and
PBGC as supportive of the bill. I'm not aware of anything David has been
doing recently to advocate this, but you probably are (or should be) aware
of significant tension between David and Treasury on this. Call me if you
want to discuss further.

--Rick

From: Maroney Kevin
Sent: Tuesday, October 19, 1999 7:20 PM
To: Palast Geri; McGahey Richard; Kramerich Leslie; Kane Rondalyn; Gohl
Earl
Subject: Center for Budget and Policy briefings on Pension Provisions

The Center for Budget and Policy Priorities today held three
briefings (one for press at the Willard Hotel, one for HSE staff, one for
SEN staff) on the distributional impact of the pension provisions
contained
in HR 3081, Rep. Lazio's minimum wage bill. The briefers summarized the
findings that are contained in the Center's policy paper that was released

on October 8th (see: www.cbpp.org). I have some additional handouts that I will distribute to folks shortly.

HOUSE BRIEFING: 30 staffers attended. Note that during the HSE briefing, Rep. Cardin's pension staffer, David Koshgarian, in response to statements by the Center on the distributional effects of the bill, stated that " I want my friends in the room to know that David Strauss of the PBGC supports the higher limits in this bill, at least with respect to Defined Benefit plans." In response to this, Peter Orzag, one of the Center's briefers, (and formerly of the Administration) stated that "David was speaking his personal views, not those of the Administration."

David Koshgarian also stated that the bill did not raise the contribution limits, but indexed them to where they should be given inflation. He then asked what impact the 1993 change in the law had which lowered the compensation limits for pension purposes from $235,000 to $160,000. Peter responded that this lowering of the compensation limit did not affect pension coverage rates.

SENATE: 40 staffers attended. Chairman Jeffords staff, Chairman Roth's staff and Senator Baucus' staffer (Maria F.) attended the briefing. Maria challenged statements by the Center that the pension provisions were "trickle down" stating that the tax benefits are targeted to those who pay taxes--employers--and noted that many workers pay little taxes. Maria stated that the bill took this approach because it was a way of getting employers to offer benefits without creating a new government program, ala USA Accounts (the President's proposal).

Richard Bender (Senator Harkin) asked what percentage of the savings under the bill would merely be asset shifting. Peter explained that with respect to high wage earners that this was an area that was being debated right now. He stated that there is agreement that there is considerable less
asset shifting with respect to low wage earners (because they don't have assets to shift) and that the national savings rate with respect to these workers could be increased .

Diane Bennett, an attorney who appeared with the Center, commented that she did not think there was any way to increase savings among small businesses. She thought that the business owners simply could not afford to sponsors plans and that workers in these businesses wanted the immediate cash. Even if these employers did have pensions, all too often, the workers
would have small 401k accounts that are quickly consumed when they leave employment.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-OCT-1999 09:37:00.00

SUBJECT: Another one for gene

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

TEXT:
See below. Gene and I need to talk soon about pension issues. Last night, I hear there was a good chance that Archer's mark-up will proceed. Issues include:

(1) Good sentence about the pension aspects of the bill that he is comfortable putting into Press Guidance -- (see problems below -- also apparently, Lockhart quoted on estate tax but not pensions leaving the impression....)

(2) Opportunities for the Administration to be more visible: (a) Gene doing Member briefings -- Treasury/Labor doing Staff briefings (or some of both); (b) Lubbick/McGahey letter to the committee before mark-up coupled with a few choice quotes from Gene placed in a story or two; (c) issue WH statement or letter on the issue or other event focused????? To decide, it might help to have a meeting with Gene and Larry or Chuck Brain and Broderick (and someone from Senate side) to discuss their assessment of where members are and how "out there" we can afford to be.

(3) How to resolve a sticky outstanding issue between Treasury, Labor and PBGC. PBGC is widely understood as supporting DB contribution and benefit increases. We get that in our face when we complain. I am writing an options cover paper for issue briefs by the agencies on both sides. Could we do deputies or principals meeting and get it decided?

In support of all this, Treasury is working on new background paper for Gene. I hope to have by end of the day.

(3)

---------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on 10/22/99 09:28 AM ---------------------------

Ellen Nissenbaum <nissenbaum@cbpp.org>
10/21/99 12:21:00 PM
Please respond to Ellen Nissenbaum <nissenbaum@cbpp.org>
Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP
cc:
Subject:

Hi Sarah. I can only imagine how crazed you are with fin.mod.services and not have much time to deal with pensions, so I know we'll catch up by phone (vs. email or voice mail) when you can. In the meantime, passing along some info/thoughts.

Several clear from both our private Hill meetings and the two briefings:

1. There's growing interest, even concern, in these pension tax provisions among D's, esp those not on the tax Committees. Even some Dems on Portman/Cardin are telling us they want to engage on this issue, e.g. the "Dear Colleague" I'm organizing around our analysis. (I'm always careful to talk about the "pension tax provisions in the vetoed tax bill," and not refer to P/C or G/G directly. Helps a tad.)

2. The pension lobby is gearing up even more to protect their provisions in the bill, partly in response to our attacks. So it raises the visability of the whole issue. We're writing a response.

3. Many if not most of the Dem offices I've talked to who are not on the tax Committees are not aware of the Administration's concerns and clearly need to know. Some of the Senate Dem staff expressed an interest in a briefing from Admin types!

4. While it's obviously possible (likely?) that min wage is slipping, the fact that it's still hanging out there continues to provide opportunities to raise the pension issue since Members/staff think they should be prepared in case the bill actually hits the floor. Peter's points about no new n'l savings, just asset shifts and risks of reduced pension coverage seem to be getting a lot of attention. I hope you all are continuing to think about what Gene et al might do in a "high" profile way to raise this issue and the Admin's concerns.

On that point, a small concern: Joe Lockart was widely quoted last night about the WH's concerns re the min wage bill ("...We're not interested in moving forward w/ unpaid tax cuts.") The concern is that it unintentionally implies that if the tax cuts were offset, they would be acceptable.

I think it would be useful (esp for Dems who are beginning to stick their necks out on this cautiously) for the press folks to have a sentence or two in any remarks on the min wage bill referring to the problematic pension pieces, and specifically the loss of pension coverage risk. I remember Gene's quote on pensions from a transcript I got some time ago. It was, as usual, terrific and would be good for Joe and others to repeat now in the context of min wage.

Offered in the spirit of constructive suggestions!

Hope this is helpful. Look forward to catching up soon.

(By the way, so is bankruptcy moving or not?)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ronald E. Jones (CN=Ronald E. Jones/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:25-OCT-1999 11:54:53.00

SUBJECT: Re: TREASURY/LABOR Letter Recommending Veto of HR3081 Wage and Employment Growth Act of 1999

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

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

TO: Bennie C. Rogers (CN=Bennie C. Rogers/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

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

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

CC: Richard E. Green (CN=Richard E. Green/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:
PBGC (Sevin) objects to the Treasury-Labor letter. They believe the item, highlighted below and others, have not been agreed upon within the Administration.

Also, we have serious concerns regarding the pension provisions in the bill that raise the maximum limits for tax-qualified plans and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. These provisions are regressive, would not significantly increase plan coverage, and could lead to reductions in retirement benefits for moderate- and lower-income workers. It also contains a provision that would undermine the Secretary of Labor's ability to enforce ERISA.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-OCT-1999 12:31:36.00

SUBJECT: Re: TREASURY/LABOR Letter Recommending Veto of HR3081 Wage and Employment Growth Act of 1999

TO: Ronald E. Jones (CN=Ronald E. Jones/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: bennie c. rogers (CN=bennie c. rogers/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

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

CC: richard e. green (CN=richard e. green/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

CC: janet r. forsgren (CN=janet r. forsgren/OU=omb/O=eop@eop [OMB])
READ:UNKNOWN

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

TEXT:
Sometimes DOL doesn't check with PBGC, so we should give PBGC's objection a full hearing. Still, I don't agree with 'em.

It's my recollection that the language that PBGC finds objectionable is consistent with the deliberations and actions of the NEC pension group. (Sarah: Right?) In that group, PBGC supported raising the limits as applied to defined-benefit plans only, but its view did not prevail. Since the letter's language uses just a few words to refer to all tax-advantaged pension plans, PBGC is being very sensitive indeed. I'd prefer keeping the original.

Alternatively, I'd accept:

raise the maximum limits for all tax-qualified plans

which allows (but doesn't require) the Administration to accept some raised limits. But I don't know how others would view it and don't know if that change is enough for PBGC. Any edit will have to be about as brief and effective as the original.

From: Ronald E. Jones on 10/25/99 11:55:06 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Richard E. Green/OMB/EOP@EOP
Subject: Re: TREASURY/LABOR Letter Recommending Veto of HR3081 Wage and Employment Growth Act of 1999

PBGC (Sevin) objects to the Treasury-Labor letter. They believe the item, highlighted below and others, have not been agreed upon within the Administration.

Also, we have serious concerns regarding the pension provisions in the bill that raise the maximum limits for tax-qualified plans and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. These provisions are regressive, would not significantly increase plan coverage, and could lead to reductions in retirement benefits for moderate- and lower-income workers. It also contains a provision that would undermine the Secretary of Labor's ability to enforce ERISA.

Message Sent
To:____

larry r. matlack/omb/eop@eop
Mark D. Menchik/OMB/EOP@EOP
Sarah Rosen/OPD/EOP@EOP
Janet R. Forsgren/OMB/EOP@EOP
Bennie C. Rogers/OMB/EOP@EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-OCT-1999 12:34:26.00

SUBJECT: multiemployer pension sec 415 Issues --

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

TEXT:
this is background -- before we did our new proposal
---------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on
10/27/99 12:34 PM ---------------------------

Mark.Iwry@do.treas.gov
07/27/99 08:07:23 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Gay L. Joshlyn/OPD/EOP, Paul A. Tuchmann@OVP
Subject: multiemployer pension sec 415 Issues --

Date: 07/27/1999 08:01 pm (Tuesday)
From: Harlan Weller (Mark Iwry)
To: BORTZW, BurmanL, HUNTERG, NULLA, RICHARDSOND, SHACKLEFORDD,
SMITHPA, WALKERD, WELLERH, WellingtonD, DOM3.DOPO5.ANDREWSL,
DOM3.DOPO5.TooheyF, ex.mail."Sarah_Rosen_Wartell@opd.eop.gov",
ex.mail."akers-valerie@dol.gov", ex.mail."amy.null",
ex.mail."Bruce_D._Long@omb.eop.gov", ex.mail."David.Richardson",
ex.mail."David_W._Beier%OVP@oa.eop.gov",
ex.mail."deborah.walker", ex.mail."donald.wellington",
ex.mail."donna.shackleford",
ex.mail."Douglas_D._McCormick@omb.eop.gov",
ex.mail."frank.toohey", ex.mail."gillian.hunter",
ex.mail."grant.joseph@pbgc.gov",
ex.mail."gustafson.david@pbgc.gov", ex.mail."harlan.weller",
ex.mail."healy.monica@pbgc.gov", ex.mail."hinzr@pwba.dol.gov",
ex.mail."holzer-harry@dol.gov",
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ex.mail."kramerich-leslie@dol.gov",
ex.mail."krist.karen@pbgc.gov",
ex.mail."Laurence_R._Jacobson@omb.eop.gov",
ex.ma
CC: ex.mail."Gay_L._Joshlyn@opd.eop.gov",
ex.mail."Paul_A._Tuchmann%OVP@oa.eop.gov"
Subject: multiemployer pension sec 415 Issues --

Attached, per Sarah's request, is a set of explanatory notes laying out background information for conference call re building & construction trades proposals for multiemployer pension plan tax code relief

- MULTIE~1.WPD

Message Sent

To:____

William.Bortz@do.treas.gov
Leonard.Burman@do.treas.gov
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Amy.Null@do.treas.gov
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Donna.Shackleford@do.treas.gov
Paul.Smith@do.treas.gov
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=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D91]ARMS20162340B.336 to ASCII,
The following is a HEX DUMP:

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

Proposals to Give Multiemployer Pension Plans Special Relief from Section 415 Defined Benefit Limits

Note: except where specified otherwise, all of the dollar limits described below are indexed for cost-of-living; some of the amounts have been rounded to the nearest $1,000.

I. BACKGROUND

Internal Revenue Code section 415 sets forth 2 limits on defined benefit plans, a dollar based limit and a compensation based limit.

The dollar based limit for 1999 is $130,000 payable at Social Security Retirement Age (currently age 65, but scheduled to phase up to age 67), reduced for earlier commencement. For example, the dollar based limit is $104,000 at age 62, $89,000 at age 60, $62,000 at age 55 and $44,000 at age 50.

The Internal Revenue Code contains a special rule for defined benefit plans sponsored by governments, tax-exempts and merchant marines. For these plans, the $130,000 section 415 limit applies to pensions payable beginning at age 62 (instead of Social Security Retirement Age), and the limits at earlier ages are correspondingly 25% higher than the generally applicable rules. For example, the limit for governmental employees at age 55 is $77,000 (or 125% of the generally applicable age-55 limit of $62,000).

The compensation based limit is 100% of highest 3-year average pay (the "100%-of-pay limit").

Another relevant rule permits the payment of a minimum benefit of $10,000 (unindexed) for any person -- even if retiring early and even with average pay of less than $10,000 -- who has not participated in a defined contribution plan of the same employer.

For purposes of section 415, all plans maintained by an employer and related entities are combined, except that the regulations permit a multiemployer plan to disregard benefits provided by the same employer through other multiemployer plans. Thus aggregation of a multiemployer plan and a single-employer plan maintained by the same (or a related) employer is required.

II. CURRENT PROPOSALS

Administration. The Administration's budget has proposed exempting multiemployer defined benefit plans from the 100%-of-pay limit. This exemption has been incorporated in the current tax bill in both the House and the Senate and was included in the Democratic House alternative. The Administration's budget, in response to union suggestions, has also proposed that no early retirement adjustments apply in the case of multiemployer plan survivor and disability benefits. This latter provision is not included in the current House or Senate tax bill, but was included in the Democratic House alternative.

BCTD. The Building and Construction Trades Department has now indicated that it has somewhat different priorities, as reflected in the July 18, 1999 Multiemployer Section 415 Relief Status Report prepared by the Building & Construction Trades Department, AFL-CIO. In addition to repeal of the 100% of pay limit for multiemployer plans, the BCTD proposal, as described in the July 18 document, contains the following two elements:

1. Provide the multiemployer plans with the same special higher early retirement section 415 limit that currently applies to defined benefit plans sponsored by governments, tax-exempt organizations and merchant marine, but increase that special higher limit for all of those categories of plans to $104,000 for ages 55-59 (expressed as 80% of the normal retirement dollar limit in effect for the year -- currently 80% of $130,000). The special higher limit would be reduced actuarially below age 55. (This means the age 50 limit for multiemployer plans would be $74,000 (as opposed to the general corporate limit of $44,000.)

- The House version of the tax bill does not include this provision.

- The Senate version includes a portion of the proposal: it extends to multiemployer plans the special current-law early retirement section 415 limit that applies to governments, tax-exempts and merchant marine, but does not increase that special limit from the current $77,000 at age 55 to the requested $104,000.

- The Democratic House alternative would have increased the special higher early retirement limit for multiemployer plans (but not for governments and tax-exempts), setting the early retirement limit for ages 55-59 at $104,000 and reducing actuarially below age 55.

2. Exempt participants in multiemployer plans from the generally applicable requirement that, for purposes of applying the section 415 limits, benefits provided under a single employer plan need not be aggregated with benefits provided by a related employer under a multiemployer plan. However, the exemption from aggregation would not apply unless you are testing the dollar limit; accordingly, the exemption would be available when applying the 100%-of-pay limit and in applying the $10,000 minimum benefit rule.

- This exemption from aggregation has been include in the Senate, but not the House version of the tax bill.

- The Democratic House alternative provided for this exemption as well.

DISCUSSION

ISSUE 1 - Special Higher Early Retirement Limit

- There is an argument that higher early retirement limits should apply to participants who are engaged in physical labor because they generally need to retire earlier than white-collar workers.

- The proposal would allow tax-qualified multiemployer plans to pay very generous early retirement benefits, presumably beyond the benefit levels that most rank-and-file workers would ever accumulate. (An annual benefit of $104,000 beginning at age 55 is equivalent to an annual benefit of more than $200,000 beginning at age 65.)

- Creation of a new special rule with a $104,000 (80%-of-Social Security Retirement Age) floor invites others to seek comparable favorable statutory treatment. Including multiemployer plans in the current-law special rule for governments and tax-exempts would minimize the risk of spillover to all types of plans. (Among other things, this would tend to encourage workers to retire earlier.)

ISSUE 2 - Exemption from Aggregation of Plans

Under current law, aggregation is applied for 3 different purposes: the dollar limit, the percentage of pay limit and the special $10,000 annual payment exception[1].

- The BCTD argues that aggregation in applying the 100%-of-pay limit and $10,000 floor generates substantial administrative cost and paperwork, and that this cost is unnecessary because multiemployer plan benefit formulas are not compensation-based.

- Giving the requested relief from aggregation would permit "double dipping" -- allowing some individuals to obtain double benefits from the same employer, often for the same work. Presumably, many of the beneficiaries of this special relief would be union officials who are covered by both a multiemployer plan in which the union local is a participating employer covering its employees (union officers and staff) and a single-employer plan sponsored by the international union for the same employees and other union officers and staff.

- The BCTD document indicates that the aggregation relief would not open the door to tax manipulation because employers could not simply adopt extra multiemployer plans for their employees without collective bargaining.

- Some are concerned that pension double-dipping in excess of 100% of pay might be used as an inconspicuous means of delivering higher total compensation to selected individuals

[1] The House version of the tax bill would phase up the $10,000 to $40,000 (unindexed) by 2003 (and would eliminate the condition that the participant not be covered by a defined contribution plan). This would mean that the minimum benefit provision would deliver more meaningful benefits.

(although this would not be expected to be a problem in the union context).

Other versions of this proposal would exempt these plans from aggregation for purposes of the section 415 dollar limit as well; the exemption from aggregation for purposes of the 100%-of-pay limit could readily expand to the dollar limit.