RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-MAY-1999 14:18:44.00

SUBJECT: deputies memo as delivered

TO: mark.iwry@do.treas.gov (mark.iwry@do.treas.gov [UNKNOWN])
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TO: amy.null@do.treas.gov (amy.null@do.treas.gov [UNKNOWN])
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TO: grant.joseph@pbgc.gov (grant.joseph@pbgc.gov [UNKNOWN])
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TO: turner-john@dol.gov (turner-john@dol.gov [UNKNOWN])
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READ:UNKNOWN

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

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

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

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

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])
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TO: jane.molloy@mail.doc.gov (jane.molloy@mail.doc.gov [UNKNOWN])
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TO: Sonyia Matthews (CN=Sonyia Matthews/OU=OPD/O=EOP@EOP [OPD])
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TO: Natasha F. Bilimoria (CN=Natasha F. Bilimoria/OU=OPD/O=EOP@EOP [OPD])
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TEXT:
==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D91]ARMS242155059.136 to ASCII,
The following is a HEX DUMP:

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

May 18, 1999

MEMORANDUM TO NEC DEPUTIES

FROM: PENSIONS WORKING GROUP

RE: EMPLOYEES' RIGHT-TO-KNOW WHEN THEIR FUTURE PENSION BENEFITS ARE REDUCED

This memorandum outlines a new legislative proposal to improve the information employees receive when their defined benefit pension plans are amended to reduce significantly the rate of future benefit accruals or the value of early retirement benefits. The Department of Labor (DoL) deserves significant credit for developing a detailed proposal that balances the competing concerns of employers and employees. The working group has analyzed and refined the DoL proposal and reached consensus that the Administration should advance a proposal along the lines described below. There are some technical details that the group has yet to resolve. (See "Outstanding Issues" below.) However, we are confident that we can reach consensus on these issues if decision-makers are comfortable with the general approach and legislative strategy described below.

Background

The private pension system is a voluntary system under which employers are free to establish, terminate, or amend the pension plans they provide to their employees. The law, however, places some restrictions on these decisions. For example, employers may not reduce pension benefits that have already accrued, and pension plan administrators must provide participants with a notice of any amendment that significantly reduces the rate of future accruals. Recent media and congressional attention has focused on a particular type of amendment and its impact on older workers — the conversion of a traditional defined benefit plan to a cash balance plan. (See, e.g., Wall Street Journal article attached. Other press reports will be available at the Deputies meeting.)

Cash balance plan conversions can be accomplished without change to the overall cost of benefits provided. In those cases, cash balance plans generally increase future benefits to younger workers and reduce future benefits to older workers. In some cases, however, employers may use the conversion as an occasion to reduce the total cost of pension benefits, often by reducing or eliminating early retirement benefits. Because of the complexity of both the original and new benefit plans, workers may not recognize either the reallocation or the reduction effect. Of course, many employers who are converting to cash balance plans do provide workers with decent information and provide older workers with special benefits to lessen the impact of the switch. But not all.

Cash balance plans have been in use for several years but recently have become more popular among employers. Twenty percent of the Fortune 500 companies (covering about 25% of all of the participants in defined benefit plans) reportedly have already converted from a traditional defined benefit plan to a cash balance plan; thirty to forty percent of large companies are considering converting. Cash balance plans are the only category of defined benefit plan that is increasing, rather than decreasing, in number.

There is much controversy around the impact of converting from a traditional defined benefit plan (especially on older workers) and the sufficiency of the information provided to employees about such conversions. The controversy has been fueled by a conversation, taped at a meeting of actuaries and widely replayed in the media, in which the participants laughed about how workers switched to cash balance plans do not understand how little they are receiving in benefits until after they retire. The employer community tells us informally that they plan to launch soon a major campaign to respond to the criticism of these plans and plan changes, arguing the benefits cash balance plans provide to many workers.

Two major legislative proposals have been introduced in Congress. (See "Comparison to Other Pending Proposals" below.) One imposes extensive (and some would say burdensome) requirements on employers, but provides employees with significant (some would say misleading) new information; the other is far less burdensome but provides employees with little relevant information. Our proposal attempts to strike a middle ground, improving disclosure for participants without subjecting employers to unreasonable burdens and costs. Our proposal does not address the merits of cash balance plans, which have their advantages as well as disadvantages; rather, it focuses on how we can provide better disclosure for participants who are affected by a change in plan benefits.

Current Law

Section 204(h) of ERISA generally requires defined benefit plan administrators to notify participants, alternate payees under qualified domestic relations orders, and employee organizations representing plan participants, if a plan amendment has been adopted that will significantly reduce the amount of future benefits commencing at normal retirement age. The notice must be given after the amendment is adopted but not less than 15 days before the effective date of the amendment. It must set forth the plan amendment and the effective date. Treasury/IRS has interpretative authority over § 204(h). They issued final regulations last year stating that § 204(h) may be satisfied by providing affected participants, alternate payees, and employee organizations either the text of the amendment or a summary "written in a manner calculated to be understood by the average plan participant."

Administration Legislative Proposal

The Administration's proposal would include four major improvements in the current disclosures required for plan changes under § 204(h).

1. *Timing for Notice:* The proposal would require that an expanded notice be furnished earlier than under current law (either 30 or 45 days before the effective date). (See "Outstanding Issues" below.) It would also permit the notice to be provided before the amendment is adopted.

2. *When Notice to be Provided:* The proposal would expand the circumstances under which notice would be required to be provided to include notice of a significant reduction of an early retirement benefit. (Electronic distribution would be allowed in accordance with DOL rules under Title I of ERISA).

3. *Content of Notice:* The proposal would require that the notice include a plain language summary of the amendment, a statement that a copy of the amendment is available on request, and a general explanation (including examples) of the impact of the amendment on participants and alternate payees.

4. *Right to Individualized Statement:* The proposal would provide each participant with the right to request an individualized statement showing the impact of the amendment on his or her benefits under the plan. Each participant would be able to make one such request at any time up to one year after the effective date of the amendment.

In addition to the four central changes from current law, other details of the proposal include:

- *Who Gets The Notice:* A notice would have to be furnished to plan participants and alternate payees who are reasonably expected to be adversely affected by the amendment. The plan administrator also would be required to send a copy of the notice to employee organizations representing affected participants.

- *Minimum Subject Matter Requirements for Notice:* The proposal would prescribe minimum subject matter requirements for the notice and individual statement. (Employers could provide additional information about the amendment, including advantages to participants and alternate payees expected to result from the amendment.) The notice would have to include a summary of the amendment and a general explanation of the impact of the amendment on participants and alternate payees. The general explanation would be required to include at least the following:

  - A statement that the plan is being or has been amended to reduce the future rate of benefit accrual (or reduce early retirement benefits), and, if the reduction would not affect all participants or alternate payees in the plan, a description of the class or classes affected.

  - A general explanation of how the amendment will result in a reduction in the rate of future benefit accrual (or in early retirement benefits).

  - A statement identifying the earliest date the amendment will become effective.

- Explanatory hypothetical examples possibly comparing, both before and after the plan amendment, the value of a person's accrued benefits. The content of the examples is still being discussed. (See "Outstanding Issues" below.) Assumptions used in calculating future benefit accruals, including future compensation and interest credits, would have to be disclosed on the statement and would be required to be reasonable.

- ***Statement on Right to Individualized Benefit Statement on Request for One Year:*** The notice also would state that each participant has a right to request, within one year after the effective date of the amendment, one individualized benefit statement. The individualized benefit statement would have to be provided free-of-charge. The proposal would require the employer to furnish the individual statements within 30 days of receipt of a written request, but not earlier than 90 days after the effective date of the amendment, to allow employers sufficient time to collect the necessary individual information after the amendment.

- ***Regulatory Authority.*** The general advance notice would continue to be under the Treasury Department's regulatory jurisdiction as part of § 204(h). The individualized statement would be based on the requirements of § 204(h), but the Labor Department's current regulatory authority over other individual benefit statements would be expanded to cover this new requirement.

Comparison to Other Pending Proposals

Moynihan/Weller: Senator Moynihan (D-NY) and Representative Weller (R-IL) have introduced a cash balance plan disclosure proposal (S. 659 and H.R.1176). Under these bills, plan administrators would have to provide *individualized statements to each participant* and alternate payee not less than 15 days before the effective date of an amendment that has the effect of significantly reducing the rate of future benefit accrual under the plan. The individualized statements would compare the value of the benefits under the new and old plans at various dates. A general notice would be required for employee organizations representing participants in the plan. The business community has criticized this proposal as imposing substantially increased costs and burdens and providing misleading information. Our proposal would not require automatic preparation of individualized statements for all participants and alternate payees, only a general statement with examples and an individualized statement for those who request it. We also would require use of reasonable assumptions in projecting benefit values, while Moynihan/Weller requires use of specific rates set out in the Internal Revenue Code.

Portman/Cardin. Representatives Portman and Cardin include, in their broader pension bill (H.R. 1102), a proposal that would make only minimal changes to current law. It would amend § 204(h) to require that a notice of an amendment significantly reducing the rate of future benefits accrual be provided to affected participants, alternate payees, and employee organizations at least 30 days prior to the effective date of the amendment (rather than the current 15 days). The Portman/Cardin notice would include a copy or summary of the amendment and an understandable description of the reduction in benefit accrual. Our proposal would expand the scope of § 204(h) to apply to significant reductions in early retirement benefits, require explanatory examples as part of the general advance notice of the amendment, and add a right to get individualized information on request following the effective date of the amendment. **(Note:** The Association of Private Pension and Welfare Plans, a trade association representing large employers/plan sponsors, has a proposal that generally mirrors the timing and content of disclosures in the Portman/Cardin bill, although the language differs somewhat.)

<u>Budget Impact</u>

OMB staff advise that the proposal would not be subject to pay-as-you-go requirements and so would not require an offset.

<u>Outstanding Issues</u>

Although there is consensus on the approach described above, there are a number of important technical issues that the agencies in the working group need additional time to resolve. These include:

- **What information should be provided, if any, to compare projected benefits under the old and new plans.** On the one hand, workers have to make important life decisions based on their retirement benefits. The easiest way to explain the value of the new pension plan may be in comparison to the old. And employees have the right to understand exactly how their benefits have changed, which only may be accomplished by comparing current benefits with what benefits would have been prior to the amendment. On the other hand, such comparisons would be costly to produce and would be criticized as inconsistent with the voluntary character of the private pension system. Employers have the right to terminate all further benefits, if they so desire. Providing a comparison with the old plan implies an option that does not exist for the employee. Most members of the working group are inclined toward providing some form of comparison; they want to ensure, however, that we can defend the information compared as relevant and useful.

- **When to provide the notice of plan amendment.** Under current law, the notice is provided 15 days before the effective date of the amendment. We will propose that the notice be provided either 30 or 45 days before the effective date. We are studying the impact and feasibility of longer advance notice.

<u>Legislative Strategy</u>

There will be substantial interest on Capitol Hill in any cash balance disclosure legislation proposed by the Administration. A bipartisan group of Members in both Houses are committed to moving pension legislation as part of any tax bill. The budget resolution calls for the tax committees to report out tax legislation by mid-July.

Prior to any public announcement, the following actions should be taken:

- Brief the Democratic leadership in both Houses of Congress (including members who have been serving as point persons for the Leadership on pension issues, i.e., Rep. Gejdenson, Senator Daschle, and Senator Graham).

- Brief the Democratic staff of the four committees of jurisdiction (Senate Finance Committee, Senate Health, Education, Labor and Pension Committee, House Ways and Means Committee and House Education and the Workforce Committee). Special attention should be paid to Senator Moynihan's staff to explain why the Administration is adopting a different approach from his own.

- Identify one or two Democratic members on each of the four committees to take leadership on promoting the Administration's approach.

- Ask members who are going to take leadership to identify possible Republican supporters.

In addition, shortly prior to announcement of our proposal, we should:

- Brief Republican staff of the four relevant committees.

- Brief members/staff who have sponsored major pension legislation (e.g., Graham, Grassley, Portman, Cardin, Pomeroy, Neal, and Gejdensen). Both Portman's and Cardin's staff indicated that they may be interested in a more substantive approach.

- Meet with staff of Democratic and Republican members, who are willing to promote the Administration's approach, to discuss strategy and coordination.

Attachment

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-MAY-1999 10:59:45.00

SUBJECT: Re: Deputies Memo

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

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

CC: amy.null@do.treas.gov (amy.null@do.treas.gov [UNKNOWN])
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TEXT:
OMB feels that a reasonable disclosure bill would have information comparing the old and the new benefits, so at least some of the hypotheticals required for individualized benefit statement should show old and new plan benefits under the same reasonable set of assumptions. If the legislation is intended to inform employees as to changes resulting from the plan amendment, some examples of old vs. new are crucial.

I personally don't see how the Administration proposal differs signficantly from Portman/Cardin without this type of information.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Deborah.Walker@do.treas.gov (Deborah.Walker@do.treas.gov [UNKNOWN])

CREATION DATE/TIME:18-MAY-1999 12:34:23.00

SUBJECT: Deputies Memo -Reply

TO: worrell~jeanette@pwba.dol.gov (worrell~jeanette@pwba.dol.gov [UNKNOWN])
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TO: Mark.Iwry@do.treas.gov (Mark.Iwry@do.treas.gov [UNKNOWN])
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TO: Leonard.Burman@do.treas.gov (Leonard.Burman@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

TO: pacelli.jane@pbgc.gov (pacelli.jane@pbgc.gov [UNKNOWN])
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TO: montgomery-edward@dol.gov (montgomery-edward@dol.gov [UNKNOWN])
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TO: mcknight-avis@dol.gov (mcknight-avis@dol.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

TO: lees@pwba.dol.gov (lees@pwba.dol.gov [UNKNOWN])
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TO: krist.karen@pbgc.gov (krist.karen@pbgc.gov [UNKNOWN])
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TO: jane.molloy@mail.doc.gov (jane.molloy@mail.doc.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

TO: Lisa.Andrews@do.treas.gov (Lisa.Andrews@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Harlan.Weller@do.treas.gov (Harlan.Weller@do.treas.gov [UNKNOWN])
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TO: Donna.Shackleford@do.treas.gov (Donna.Shackleford@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Amy.Null@do.treas.gov (Amy.Null@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Gillian.Hunter@do.treas.gov (Gillian.Hunter@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: William.Bortz@do.treas.gov (William.Bortz@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
Date: 05/18/1999 10:29 am (Tuesday)
From: Deborah Walker
To: Dom13.DOPO7(BORTZW, BurmanL, HUNTERG, IWRYM, NULLA, RICHARDSOND,
SHACKLEFORDD, SMITHPA, WELLERH, WellingtonD),
DOM3.DOPO5(ANDREWSL, TooheyF),
ex.mail("Sarah_Rosen_Wartell@opd.eop.gov",
"akers-valerie@dol.gov", "amy.null", "Bruce_D._Long@omb.eop.gov",
"Carl_Haacke@opd.eop.gov", "Cordelia_W._Reimers@cea.eop.gov",
"David.Richardson", "David_W._Beier%OVP@oa.eop.gov",
"deborah.walker", "donald.wellington", "donna.shackleford",
"Douglas_D._McCormick@omb.eop.gov", "frank.toohey",
"gillian.hunter", "grant.joseph@pbgc.gov",
"gustafson.david@pbgc.gov", "harlan.weller",
"healy.monica@pbgc.gov", "hinzr@pwba.dol.gov",
"holzer-harry@dol.gov", "jane.molloy@mail.doc.gov",
"kramerich-leslie@dol.gov", "krist.karen@pbgc.gov",
"Laurence_R._Jacobson@omb.eop.gov", "lees@pwba.dol.gov",
"LEONARD.BURMAN", "lindrewg@pwba.dol.gov", "lisa.andrews",
"Lisa_B._Fairhall@omb.eop.gov", "mark.iwry",
"Mark_D._Menchik@omb.eop.gov", "maroney
Subject: Deputies Memo -Reply

The reason this should not be expanded to 401(k)s (and DC plans in
general) is that the future benefit accrual in a 401(k) plan is directly
related to the salary reduction contributions that participants contribute
and the earnings on participant's account balances which have generally
been self directed into specific investments by the participants. In
short,
participant actions in a 401(k) plan determine the future accrued benefit
and how can the employer be required to project a reduced future
benefit accrual related to individual actions? Besides, its not a problem

and there will be considerable poliitical opposition

DoL and Treeasury have jointly come up with this (although DOL hasn't seen final):

Treasury and DOL disagree with expanding the requirements to defined contribution plans because (1) the burden of requiring disclosure dramatically outweighs any benefits of such disclosure (particularly since the concerns rasied have been limited to defined benefit plans), (2) future accrued benefits under defined contribution plans are often dependent on participant actions, and (3) expanding the requirements in this manner likely will result in widespread oppostion to the proposal."

We'll call or fax typo changes.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-MAY-1999 11:30:40.00

SUBJECT: RE: Deputies Memo

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

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

TO: harlan.weller@do.treas.gov (harlan.weller@do.treas.gov [UNKNOWN])
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TO: Sonyia Matthews (CN=Sonyia Matthews/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

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

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

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

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

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

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

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

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

TO: Sirkin Stuart 001 <Sirkin.Stuart@PBGC.GOV> (Sirkin Stuart 001 <Sirkin.Stuart@PBGC.GOV> [UNKNOWN]
)
READ:UNKNOWN

CC: schub judy 001 <schub.judy@pbgc.gov> (schub judy 001 <schub.judy@pbgc.gov> [UNKNOWN])
READ:UNKNOWN

CC: healy monica 001 <healy.monica@pbgc.gov> (healy monica 001 <healy.monica@pbgc.gov> [UNKNOWN])
READ:UNKNOWN

TEXT:
Would all folks commenting please forward your comments to everyone. Some

are disputes with views of others and I don't want to get blamed for
picking sides.

Sirkin Stuart 001 <Sirkin.Stuart@PBGC.GOV>
05/18/99 09:52:27 AM
Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP
cc: Healy Monica 001 <Healy.Monica@PBGC.GOV>, Schub Judy 001
<Schub.Judy@PBGC.GOV>
Subject: RE: Deputies Memo

We generally like what you did to the memo. A few points, however:

1. In the background section, we should make clear that many employers
are providing information to participants to explain the change and many
are
providing older workers with special benefits to lessen the impact of the
switch. But not all are doing it, and in many cases the information
provided
is not sufficient. (In that way we strike a more balanced
presentation--especially if you are going to include the one-sided,
misleading Wall St. Journal article--and let the deputies put this in the
context of our requirements not being totally different than things plans
are doing.)

2. In the background first paragraph (In those cases sentence), you
should put "future" before "benefits to younger workers" and again before
"benefits to older workers" to eliminate any implication that it is current
benefits.

3. Rewrite the following sentence to read: "In some cases, however,
employers may use the conversion as an occasion to reduce or eliminate
early
retirement subsidies." We have no information about cost despite what the
articles claim, and indeed in many cases cost is complicated because they
may be restructuring other benefits, providing grandfathers, and there is a
big difference between FASB "expense" and actual cost. We also know that
eliminating early retirement subsidies is a labor force planning goal,
separate and apart from cost.

4. The tapes were hardly secret. They are sold by the Enrolled
Actuaries conference which tapes all sessions.

5. We lost the first sentence of the last paragraph of dol's memo which
said that cash balance plans themselve have not drawn substantial criticism
only the conversions. It is important to us that this memo not be
interpreted as a condemnation of cash balance plans for the deputies--and

that is the impression one is left with in reading all of the negatives.

5. In beginning of admin leg proposal make clear that proposal is not just a cash balance proposal (that idea gets lostin the text)

6. In admin proposal (#4) we have plural and singular in same sentence.

7. In min subject matter bullet 4, it should be the "earliest date" that is identified not the date, we don't want to preclude employers from providing the info earlier.

8. We would kill the 2nd sentence of the Moynihan description. Why do the deputies need to know about 401a35 and 204h as being created and amended?

7. Outstanding issues, what plans to cover. we want to rewrite the last sentence. It should read. PBGC believes that if the objective is for workers to have information to make important life decisions based on their retirement benefits, they equally need disclosure when a defined contribution plan takes such steps as changing the amount of the matching contribution or the benefit formula in a complicated age weighted profit sharing plan. Therefore PBGC believes that the emploees right to know should apply to changes in benefits in all types of plans (i.e., extend the 204h notice to apply to defined contribution plans also).

One final thing. We have been trying to get invited to a meeting Mark is holding today for DOL and them to meet with the actuaries to hear their views on cash balance disclosure. We heard about the meeting from the actuaries (shortly after I hung up with Mark to tell him that we were not leaking anything and resented the implication). I have left two messages so
far and we still have not heard back. I thought we were beyond these games and it had been made clear to Mark that we were to be full participants in this process. Burdens on db plans are of great concern to PBGC, and full hearing what the actuaries have to say as a group is important to us. We are getting kind of tired of Treasury's games. Last time they left a voice mail message inviting us to the meeting 10 minutes before it was scheduled to start. Sorry to get you in the middle of this, but we are trying to be team players.

-----Original Message-----
From: Sarah_Rosen_Wartell@opd.eop.gov
[mailto:Sarah_Rosen_Wartell@opd.eop.gov]
Sent: Tuesday, May 18, 1999 9:04 AM
To: Natasha_F._Bilimoria@opd.eop.gov; Sarah_Rosen_Wartell@opd.eop.gov;
Sonyia_Matthews@opd.eop.gov; Carl_Haacke@opd.eop.gov;
David_W._Beier%OVP@oa.eop.gov; Pieter_J._Boelhouwer%OVP@oa.eop.gov;
Mark_D._Menchik@omb.eop.gov; Cordelia_W._Reimers@cea.eop.gov;
Laurence_R._Jacobson@omb.eop.gov; Bruce_D._Long@omb.eop.gov;
Melissa_N._Benton@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;

worrell~jeanette@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: Deputies Memo

A near final draft is attached. I need someone to fill in the following:

In outstanding issues -- what is the reason that DoL and Treasury oppose expanding proposal to 401(k)s. Need short sentence.

In leg strategy, who is senate equivalent of Gejdensen -- lead for leadership?

Any other URGENT comments by 11:00 this morning. Then this goes to deputies. No extensions.

(See attached file: pencashbal.sxr.doc)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-MAY-1999 20:00:31.00

SUBJECT: Pensions -- Thanks

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

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

TO: harlan.weller@do.treas.gov (harlan.weller@do.treas.gov [UNKNOWN])
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TO: Sonyia Matthews (CN=Sonyia Matthews/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

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

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

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

TEXT:
Thanks for all the hard work on the cash balance plan proposal.

Sonyia -- Please schedule a meeting for next Tuesday or Wednesday to discuss resolution of outstanding issues. Please include Treasury leg Affairs (Mark -- who at Treasury handles this -- marti?) and WH leg affairs. That would be Broderick. Please try to schedule for a time that works for him. (Also, ask him who does pensions on senate side.)

Folks -- I IMPLORE YOU TO HAVE further discussions on these open issues happen in advance of next week so you can either share the resolution or we can debate and resolve at the meeting fully fleshed out issues. There will be no further tomorrows. Treasury also asked for further consultations with industry on some of the specifics. Let's do that this week so we can make final decisions on open issues and begin thinking about legislative consultations next week. Treasury please set up and include DoL and PBGC so everyone hears the same thing.

Finally, I talked with PBGC late on Tuesday and they reluctantly agreed to drop the open issue on, and postpone discussion of, the application of disclosures to defined contribution plans, recognizing the additional political hurdles that would raise for the proposal. Instead, we agreed we'd talk generally about the issue of how our regulatory treatment of DB plans may be encouraging DC plans as part of the "philosophy discussion" and thereafter can return to various specifics.

At today's deputies meeting, Mark shared with me as the meeting began that Treasury also has concerns with language in the paper that I thought was agreed to -- the application of the proposal to the reduction in early retirement benefits. (Mark -- Is that what you were whispering and David was referring to?)

If so, let's have further discussions and the issue framed (in email in advance of next week's meeting) so we can quickly resolve it at the meeting.

Thanks all.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Deborah.Walker@do.treas.gov (Deborah.Walker@do.treas.gov [UNKNOWN])

CREATION DATE/TIME:20-MAY-1999 08:34:37.00

SUBJECT: Pensions -- Thanks -Reply

TO: worrell~jeanette@pwba.dol.gov (worrell~jeanette@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

TO: lisa.andrews@do.treas.gov (lisa.andrews@do.treas.gov [UNKNOWN])
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TO: krist.karen@pbgc.gov (krist.karen@pbgc.gov [UNKNOWN])
READ:UNKNOWN

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

TO: hinzr@pwba.dol.gov (hinzr@pwba.dol.gov [UNKNOWN])
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TO: Amy.Null@do.treas.gov (Amy.Null@do.treas.gov [UNKNOWN])
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TO: Gillian.Hunter@do.treas.gov (Gillian.Hunter@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: William.Bortz@do.treas.gov (William.Bortz@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

TEXT:
Date: 05/20/1999 08:25 am (Thursday)
From: Deborah Walker
To: Dom13.DOPO7(BORTZW, BurmanL, HUNTERG, IWRYM, NULLA, RICHARDSOND,
SHACKLEFORDD, SMITHPA, WELLERH, WellingtonD),
DOM3.DOPO5(ANDREWSL, TooheyF),
ex.mail("Sarah_Rosen_Wartell@opd.eop.gov",
"akers-valerie@dol.gov", "amy.null", "Bruce_D._Long@omb.eop.gov",
"Cordelia_W._Reimers@cea.eop.gov", "David.Richardson",
"David_W._Beier%OVP@oa.eop.gov", "deborah.walker",
"donald.wellington", "donna.shackleford",
"Douglas_D._McCormick@omb.eop.gov", "frank.toohey",
"gillian.hunter", "grant.joseph@pbgc.gov",
"gustafson.david@pbgc.gov", "harlan.weller",
"healy.monica@pbgc.gov", "hinzr@pwba.dol.gov",
"holzer-harry@dol.gov", "jane.molloy@mail.doc.gov",
"kramerich-leslie@dol.gov", "krist.karen@pbgc.gov",
"Laurence_R._Jacobson@omb.eop.gov", "lees@pwba.dol.gov",
"LEONARD.BURMAN", "lindrewg@pwba.dol.gov", "lisa.andrews",
"Lisa_B._Fairhall@omb.eop.gov", "mark.iwry",
"Mark_D._Menchik@omb.eop.gov", "maroney-kevin@dol.gov",
"mcg
CC: ex.mail("Broderick_Johnson@who.eop.gov",
"Sonyia_Matthews@opd.eop.gov"),
Subject: Pensions -- Thanks -Reply

Sarah, in my mind Tuesday or Wednesday is too early.

We have been meeting with the association groups and have included PBGC and DOL in those meetings. There may be one more group to meet with, but since it is now Thursday a meeting with outsiders couldn't happen until mid to late next week. The outsiders need time to prepare, schedules to coordinate and sometimes outsiders to get to DC.

Regardless of any meetings with outsiders, the working group is planning to meet Monday to iron out some of the open issues. Unfortunately, I think that it will take at least two more meetings before we have things resolved. This group that is trying to to get items resolved includes PBGC, DOL and Treas. Anyone is welcome to come.

I anticipate that the group will come to a conclusion we can agree on, but I don't expect that it will be before the end of the month. I know this is frustrating, but it is critical that we propose a workable solution that will
be accepted by all. the last thing we want is for the Hill or outsiders to say "The Administration is so out to lunch. They have no idea how the world works. Look at what they missed."

Thinking and discussing this takes time. It just can't be done by next week.

You understand, of course, that these are my personal comments. My guess is that they would be shared by the group.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sirkin Stuart 001 <Sirkin.Stuart@PBGC.GOV> (Sirkin Stuart 001 <Sirkin.Stuart@PBGC.GOV> [UNKNOWN])

CREATION DATE/TIME:20-MAY-1999 12:25:07.00

SUBJECT: RE: Pensions -- Thanks -Reply

TO: worrell~jeanette@pwba.dol.gov (worrell~jeanette@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

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

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TO: Gustafson David 001 <Gustafson.David@PBGC.GOV> (Gustafson David 001 <Gustafson.David@PBGC.GOV> [UNKNOWN])
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TO: William.Bortz@do.treas.gov (William.Bortz@do.treas.gov [UNKNOWN])
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TO: william.bortz@do.treas.gov (william.bortz@do.treas.gov [UNKNOWN])
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TO: turner-john@dol.gov (turner-john@dol.gov [UNKNOWN])
READ:UNKNOWN

TO: Schub Judy 001 <Schub.Judy@PBGC.GOV> (Schub Judy 001 <Schub.Judy@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

TO: Pieter J. Boelhouwer@OVP (Pieter J. Boelhouwer@OVP [UNKNOWN])
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TO: Pacelli Jane 001 <Pacelli.Jane@PBGC.GOV> (Pacelli Jane 001 <Pacelli.Jane@PBGC.GOV> [UNKNOWN])
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READ:UNKNOWN

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

TO: Krist Karen 001 <Krist.Karen@PBGC.GOV> (Krist Karen 001 <Krist.Karen@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

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

TO: hinzr@pwba.dol.gov (hinzr@pwba.dol.gov [UNKNOWN])
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TO: harlan.weller@do.treas.gov (harlan.weller@do.treas.gov [UNKNOWN])
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TO: Grant Joseph 001 <Grant.Joseph@PBGC.GOV> (Grant Joseph 001 <Grant.Joseph@PBGC.GOV> [UNKNOWN
])
READ:UNKNOWN

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

TO: Leonard.Burman@do.treas.gov (Leonard.Burman@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: "'Mark.Iwry@do.treas.gov'" <Mark.Iwry@do.treas.gov> ("'Mark.Iwry@do.treas.gov'" <Mark.Iwry@do.treas.gov> [UNKNOWN])
READ:UNKNOWN

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

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

TEXT:
I think trying to meet tomorrow afternoon, setting a definite time for
Monday and a tentative time for Tuesday would be worthwhile. From PBGC's
viewpoint, projecting the old benefit formula is the biggest open issue.
We
also should consider whether perhaps the early retirement proposal should
be
limited to cash balance plans (if we can define it) or maybe plans
switching
from final average pay to career average pay formulas (if that distinction
can't be walked around). Maybe we should also consider limiting this whole
idea to cash balance accounts since politically that is getting the
attention (and no one wants to extend it to dc plans.

If conference rooms are a problem, we have plenty of them over here.

Let me start the time process by suggesting

3 pm Friday at PBGC
12:30 Monday
10 am Tuesday

-----Original Message-----
From: Mark.Iwry@do.treas.gov [mailto:Mark.Iwry@do.treas.gov]
Sent: Thursday, May 20, 1999 10:37 AM
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;
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paul.smith@do.treas.gov; Pieter_J._Boelhouwer%OVP@oa.eop.gov;
Sarah_Rosen_Wartell@opd.eop.gov; schub.judy@pbgc.gov;
sirkin.stuart@pbgc.gov; turner-john@dol.gov; watsons@pwba.dol.gov;
william.bortz@do.treas.gov; worrell~jeanette@pwba.dol.gov
Cc: Broderick_Johnson@who.eop.gov; Sonyia_Matthews@opd.eop.gov
Subject: Pensions -- Thanks -Reply

Date: 05/20/1999 10:31 am (Thursday)
From: Mark Iwry
To: Dom13.DOPO7(BORTZW, BurmanL, HUNTERG, NULLA, RICHARDSOND, SHACKLEFORDD, SMITHPA, WALKERD, WELLERH, WellingtonD), DOM3.DOPO5(ANDREWSL, TooheyF), ex.mail("Sarah_Rosen_Wartell@opd.eop.gov", "akers-valerie@dol.gov", "amy.null", "Bruce_D._Long@omb.eop.gov", "Cordelia_W._Reimers@cea.eop.gov", "David.Richardson", "David_W._Beier%OVP@oa.eop.gov", "deborah.walker", "donald.wellington", "donna.shackleford", "Douglas_D._McCormick@omb.eop.gov", "frank.toohey", "gillian.hunter", "grant.joseph@pbgc.gov", "gustafson.david@pbgc.gov", "harlan.weller", "healy.monica@pbgc.gov", "hinzr@pwba.dol.gov", "holzer-harry@dol.gov", "jane.molloy@mail.doc.gov", "kramerich-leslie@dol.gov", "krist.karen@pbgc.gov", "Laurence_R._Jacobson@omb.eop.gov", "lees@pwba.dol.gov", "LEONARD.BURMAN", "lindrewg@pwba.dol.gov", "lisa.andrews", "Lisa_B._Fairhall@omb.eop.gov", "mark.iwry", "Mark_D._Menchik@omb.eop.gov", "maroney-kevin@dol.gov", "m
CC: ex.mail("Broderick_Johnson@who.eop.gov", "Sonyia_Matthews@opd.eop.gov"),
Subject: Pensions -- Thanks -Reply

I too think we ought to aim for wrapping up our deliberations and meeting as a large group next week, after the additional working group meetings, analysis, and Departmental vetting that are needed.

Even though the working group has been meeting with or without outsiders on a pretty intensive schedule, there remains a fair amount of additional work and decisionmaking to do. (In our building, I think we have solid support, but a natural desire to ensure that the proposal is not half baked, and that there be adequate analysis of significant issues such as whether to extend the trigger to cover early retirement subsidy reductions, consideration of monetary sanctions, and consideration of whether to have a Moynihan-like relief for small business plans (or a more limited version, e.g., 100 and fewer employees).

In any event, it seems desirable to aim to do it all next week, starting with
the working group's Monday meeting. (And it does seem like we have by now done a lot through the meetings we've arranged and the conversations we've had toward satisfying the need to consult with outsiders, so that shouldn't hold us up.) Does the working group think it makes sense to get together tomorrow as well, and (or alternatively) to schedule additional meeting time Tuesday?

Sarah, as you inferred, the issue I was giving you a heads-up on as the deputies meeting was beginning was the specific one David referred to as deserving further consideration. That is whether, as a matter of prudence and for other reasons, it is advisable in this initial proposal to go beyond Moynihan's bill and expand the scope of the 204h trigger so as to pick up reductions in early retirement subsidies, many of which are unrelated to cash balance conversions.

Sarah/Sonyia - The Treasury Leg Affairs person for these issues is Frank Toohey, tel. 622-0585.

>>> ex.mail."Sarah_Rosen_Wartell@opd.eop.gov" 05/19/99 08:00pm >>>
Thanks for all the hard work on the cash balance plan proposal.

Sonyia -- Please schedule a meeting for next Tuesday or Wednesday to discuss resolution of outstanding issues. Please include Treasury leg Affairs (Mark -- who at Treasury handles this -- marti?) and WH leg affairs. That would be Broderick. Please try to schedule for a time that works for him. (Also, ask him who does pensions on senate side.)

Folks -- I IMPLORE YOU TO HAVE further discussions on these open issues
happen in advance of next week so you can either share the resolution or we
can debate and resolve at the meeting fully fleshed out issues. There will
be no further tomorrows. Treasury also asked for further consultations with industry on some of the specifics. Let's do that this week so we can
make final decisions on open issues and begin thinking about legislative consultations next week. Treasury please set up and include DoL and

PBGC
so everyone hears the same thing.

Finally, I talked with PBGC late on Tuesday and they reluctantly agreed to drop the open issue on, and postpone discussion of, the application of disclosures to defined contribution plans, recognizing the additional political hurdles that would raise for the proposal. Instead, we agreed we'd talk generally about the issue of how our regulatory treatment of DB
plans may be encouraging DC plans as part of the "philosophy discussion"
and thereafter can return to various specifics.

At today's deputies meeting, Mark shared with me as the meeting began that
Treasury also has concerns with language in the paper that I thought was
agreed to -- the application of the proposal to the reduction in early retirement benefits. (Mark -- Is that what you were whispering and David
was referring to?)

If so, let's have further discussions and the issue framed (in email in advance of next week's meeting) so we can quickly resolve it at the meeting.

Thanks all.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-MAY-1999 10:40:27.00

SUBJECT: Pensions -- Thanks -Reply

TO: worrell~jeanette@pwba.dol.gov (worrell~jeanette@pwba.dol.gov [UNKNOWN])
READ:UNKNOWN

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TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])
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TO: paul.smith@do.treas.gov (paul.smith@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

TO: lisa.andrews@do.treas.gov (lisa.andrews@do.treas.gov [UNKNOWN])
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TO: LEONARD.BURMAN@do.treas.gov (LEONARD.BURMAN@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

TO: gillian.hunter@do.treas.gov (gillian.hunter@do.treas.gov [UNKNOWN])
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TO: David W. Beier@OVP (David W. Beier@OVP [UNKNOWN])
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READ:UNKNOWN

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

TO: Frank.Toohey@do.treas.gov (Frank.Toohey@do.treas.gov [UNKNOWN])
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TO: Donald.Wellington@do.treas.gov (Donald.Wellington@do.treas.gov [UNKNOWN])
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TO: Deborah.Walker@do.treas.gov (Deborah.Walker@do.treas.gov [UNKNOWN])
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TO: Donna.Shackleford@do.treas.gov (Donna.Shackleford@do.treas.gov [UNKNOWN])
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TO: Amy.Null@do.treas.gov (Amy.Null@do.treas.gov [UNKNOWN])
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TO: turner-john@dol.gov (turner-john@dol.gov [UNKNOWN])
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TO: schub.judy@pbgc.gov (schub.judy@pbgc.gov [UNKNOWN])
READ:UNKNOWN

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

TO: deborah.walker@do.treas.gov (deborah.walker@do.treas.gov [UNKNOWN])
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TO: David.Richardson@do.treas.gov (David.Richardson@do.treas.gov [UNKNOWN])
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TO: akers-valerie@dol.gov (akers-valerie@dol.gov [UNKNOWN])
READ:UNKNOWN

TO: Lisa.Andrews@do.treas.gov (Lisa.Andrews@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Harlan.Weller@do.treas.gov (Harlan.Weller@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Paul.Smith@do.treas.gov (Paul.Smith@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Gillian.Hunter@do.treas.gov (Gillian.Hunter@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: William.Bortz@do.treas.gov (William.Bortz@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

TEXT:
Date: 05/20/1999 10:31 am (Thursday)
From: Mark Iwry
To: Dom13.DOPO7(BORTZW, BurmanL, HUNTERG, NULLA, RICHARDSOND,
SHACKLEFORDD, SMITHPA, WALKERD, WELLERH, WellingtonD),
DOM3.DOPO5(ANDREWSL, TooheyF),
ex.mail("Sarah_Rosen_Wartell@opd.eop.gov",
"akers-valerie@dol.gov", "amy.null", "Bruce_D._Long@omb.eop.gov",
"Cordelia_W._Reimers@cea.eop.gov", "David.Richardson",
"David_W._Beier%OVP@oa.eop.gov", "deborah.walker",
"donald.wellington", "donna.shackleford",
"Douglas_D._McCormick@omb.eop.gov", "frank.toohey",
"gillian.hunter", "grant.joseph@pbgc.gov",
"gustafson.david@pbgc.gov", "harlan.weller",
"healy.monica@pbgc.gov", "hinzr@pwba.dol.gov",
"holzer-harry@dol.gov", "jane.molloy@mail.doc.gov",
"kramerich-leslie@dol.gov", "krist.karen@pbgc.gov",
"Laurence_R._Jacobson@omb.eop.gov", "lees@pwba.dol.gov",
"LEONARD.BURMAN", "lindrewg@pwba.dol.gov", "lisa.andrews",
"Lisa_B._Fairhall@omb.eop.gov", "mark.iwry",
"Mark_D._Menchik@omb.eop.gov", "maroney-kevin@dol.gov",
"m
CC: ex.mail("Broderick_Johnson@who.eop.gov",
"Sonyia_Matthews@opd.eop.gov"),
Subject: Pensions -- Thanks -Reply

I too think we ought to aim for wrapping up our deliberations and meeting as a large group next week, after the additional working group meetings, analysis, and Departmental vetting that are needed.

Even though the working group has been meeting with or without outsiders on a pretty intensive schedule, there remains a fair amount of additional work and decisionmaking to do. (In our building, I think we have solid support, but a natural desire to ensure that the proposal is not half baked, and that there be adequate analysis of significant issues such as whether to extend the trigger to cover early retirement subsidy reductions, consideration of monetary sanctions, and consideration of whether to have a Moynihan-like relief for small business plans (or a more limited version, e.g., 100 and fewer employees).

In any event, it seems desirable to aim to do it all next week, starting with
the working group's Monday meeting. (And it does seem like we have by now done a lot through the meetings we've arranged and the conversations we've had toward satisfying the need to consult with outsiders, so that shouldn't hold us up.) Does the working group think it makes sense to get together tomorrow as well, and (or alternatively) to schedule additional meeting time Tuesday?

Sarah, as you inferred, the issue I was giving you a heads-up on as the deputies meeting was beginning was the specific one David referred to as deserving further consideration. That is whether, as a matter of prudence and for other reasons, it is advisable in this initial proposal to go beyond Moynihan's bill and expand the scope of the 204h trigger so as to pick up reductions in early retirement subsidies, many of which are unrelated to cash balance conversions.

Sarah/Sonyia - The Treasury Leg Affairs person for these issues is Frank Toohey, tel. 622-0585.

>>> ex.mail."Sarah_Rosen_Wartell@opd.eop.gov" 05/19/99 08:00pm >>>
Thanks for all the hard work on the cash balance plan proposal.

Sonyia -- Please schedule a meeting for next Tuesday or Wednesday to discuss resolution of outstanding issues. Please include Treasury leg Affairs (Mark -- who at Treasury handles this -- marti?) and WH leg affairs. That would be Broderick. Please try to schedule for a time that works for him. (Also, ask him who does pensions on senate side.)

Folks -- I IMPLORE YOU TO HAVE further discussions on these open issues
happen in advance of next week so you can either share the resolution or we
can debate and resolve at the meeting fully fleshed out issues. There will
be no further tomorrows. Treasury also asked for further consultations with industry on some of the specifics. Let's do that this week so we can
make final decisions on open issues and begin thinking about legislative consultations next week. Treasury please set up and include DoL and PBGC
so everyone hears the same thing.

Finally, I talked with PBGC late on Tuesday and they reluctantly agreed to drop the open issue on, and postpone discussion of, the application of disclosures to defined contribution plans, recognizing the additional

political hurdles that would raise for the proposal. Instead, we agreed
we'd talk generally about the issue of how our regulatory treatment of
DB
plans may be encouraging DC plans as part of the "philosophy
discussion"
and thereafter can return to various specifics.

At today's deputies meeting, Mark shared with me as the meeting began
that
Treasury also has concerns with language in the paper that I thought
was
agreed to -- the application of the proposal to the reduction in early
retirement benefits. (Mark -- Is that what you were whispering and
David
was referring to?)

If so, let's have further discussions and the issue framed (in email in
advance of next week's meeting) so we can quickly resolve it at the
meeting.

Thanks all.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-MAY-1999 16:10:44.00

SUBJECT: RE: Pensions Meeting

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

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

TO: donna.shackleford@do.treas.gov (donna.shackleford@do.treas.gov [UNKNOWN])
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TO: gustafson.david@pbgc.gov (gustafson.david@pbgc.gov [UNKNOWN])
READ:UNKNOWN

TO: Healy Monica-PBGC <healy.monica@pbgc.gov> (Healy Monica-PBGC <healy.monica@pbgc.gov> [UNKNOWN])
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TO: Akers Valerie <akers-valerie@dol.gov> (Akers Valerie <akers-valerie@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Holzer Harry <holzer-harry@dol.gov> (Holzer Harry <holzer-harry@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Watson Sharon-PWBA <watsons@pwba.dol.gov> (Watson Sharon-PWBA <watsons@pwba.dol.gov> [

UNKNOWN])
READ:UNKNOWN

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

TO: Lee Stephen-PWBA <lees@pwba.dol.gov> (Lee Stephen-PWBA <lees@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Mcknight Avis <mcknight-avis@dol.gov> (Mcknight Avis <mcknight-avis@dol.gov> [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

TO: Turner John <turner-john@dol.gov> (Turner John <turner-john@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Montgomery Edward <montgomery-edward@dol.gov> (Montgomery Edward <montgomery-edward@dol.gov> [UNKNOWN])
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TO: McGahey Richard <McGahey-Richard@dol.gov> (McGahey Richard <McGahey-Richard@dol.gov> [UNKNOWN])
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TO: Lindrew Gerald-PWBA <lindrewg@pwba.dol.gov> (Lindrew Gerald-PWBA <lindrewg@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Lebowitz Alan-PWBA <lebowita@pwba.dol.gov> (Lebowitz Alan-PWBA <lebowita@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Hinz Richard-PWBA <hinzr@pwba.dol.gov> (Hinz Richard-PWBA <hinzr@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier@OVP (David W. Beier@OVP [UNKNOWN])
READ:UNKNOWN

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

TEXT:
Team, the way I understand it, after almost daily meetings lasting several hours and rotating among agencies, we have 3 key issues -- whether to project the difference between old and new plan benefits (I plan on saying yes, we must), whether employers must be given fiduciary relief in this proposal (I will most emphatically say no, they don't), and whether to exempt certain small plans from its reach (my feeling is fundamental fairness is not less important for participants in small plans, and I don't

know that we're inundated with small plan cash balance conversions, are we?). Sorry this couldn't come earlier, see you soon.

From:
Sonyia_Matthews@opd.eop.gov[SMTP:Sonyia_Matthews@opd.eop.gov]
Sent: Thursday, May 20, 1999 4:32 PM
To: Natasha_F._Bilimoria@opd.eop.gov; Sarah_Rosen_Wartell@opd.eop.gov; Sonyia_Matthews@opd.eop.gov; David_W._Beier%OVP@oa.eop.gov; Pieter_J._Boelhouwer%OVP@oa.eop.gov; Mark_D._Menchik@omb.eop.gov; Cordelia_W._Reimers@cea.eop.gov; Laurence_R._Jacobson@omb.eop.gov; Bruce_D._Long@omb.eop.gov; Melissa_N._Benton@omb.eop.gov; Lisa_B._Fairhall@omb.eop.gov; Douglas_D._McCormick@omb.eop.gov; Hinz Richard-PWBA; Kramerich Leslie; Mcknight Avis; Lebowitz Alan-PWBA; Lee Stephen-PWBA; Lindrew Gerald-PWBA; Maroney Kevin; McGahey Richard; Watson Sharon-PWBA; Montgomery Edward; Holzer Harry; Turner John; Akers Valerie; grant.joseph@pbgc.gov; Healy Monica-PBGC; 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
Cc: Broderick_Johnson@who.eop.gov
Subject: Pensions Meeting

In reference to Sarah's e-mail to you below, this Pensions meeting has been
scheduled to take place on Wednesday, May 26th at 4:30 pm in room 476 OEOB.
If you have any questions, please respond through this e-mail or call me on
456-5351. Thank you.
---------------------- Forwarded by Sonyia Matthews/OPD/EOP on 05/20/99
04:27 PM ---------------------------

Sarah Rosen Wartell
05/19/99 08:00:17 PM

Record Type: Record

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

cc: Sonyia Matthews/OPD/EOP@EOP, Broderick Johnson/WHO/EOP@EOP
Subject: Pensions -- Thanks

Thanks for all the hard work on the cash balance plan proposal.

Sonyia -- Please schedule a meeting for next Tuesday or Wednesday to discuss resolution of outstanding issues. Please include Treasury leg Affairs (Mark -- who at Treasury handles this -- marti?) and WH leg affairs. That would be Broderick. Please try to schedule for a time that works for him. (Also, ask him who does pensions on senate side.)

Folks -- I IMPLORE YOU TO HAVE further discussions on these open issues happen in advance of next week so you can either share the resolution or we can debate and resolve at the meeting fully fleshed out issues. There will be no further tomorrows. Treasury also asked for further consultations with industry on some of the specifics. Let's do that this week so we can make final decisions on open issues and begin thinking about legislative consultations next week. Treasury please set up and include DoL and PBGC so everyone hears the same thing.

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If so, let's have further discussions and the issue framed (in
email
in
advance of next week's meeting) so we can quickly resolve it at the
meeting.

Thanks all.

Message Sent

To:

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-JUN-1999 19:24:14.00

SUBJECT: benefit limits

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

TEXT:
PBGC's paper argues for and DOL's paper reluctantly accepts an increase in the benefit and compensation limits for DB plans. Not having seen the Treasury paper, I don't know where they stand on that question. CEA would oppose raising the limits, but for all I know we lost on that one before I got here last year. Has the Administration already made a decision on this, or is the issue still on the table?
If it's still a live issue, we could do a 2-3 pager outlining the economic arguments against raising the limits. Would that be useful?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUL-1999 16:42:13.00

SUBJECT: Cash Balance Plan Disclosure

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

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

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

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

TO: paul.smith@do.treas.gov (paul.smith@do.treas.gov [UNKNOWN])
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TO: David.Richardson@do.treas.gov (David.Richardson@do.treas.gov [UNKNOWN])
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TO: mark.iwry@do.treas.gov (mark.iwry@do.treas.gov [UNKNOWN])
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TO: william.bortz@do.treas.gov (william.bortz@do.treas.gov [UNKNOWN])
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TO: healy.monica@pbgc.gov (healy.monica@pbgc.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

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

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

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

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

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])
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TO: harlan.weller@do.treas.gov (harlan.weller@do.treas.gov [UNKNOWN])
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TO: deborah.walker@do.treas.gov (deborah.walker@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: gillian.hunter@do.treas.gov (gillian.hunter@do.treas.gov [UNKNOWN])
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TO: LEONARD.BURMAN@do.treas.gov (LEONARD.BURMAN@do.treas.gov [UNKNOWN])
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TO: lisa.andrews@do.treas.gov (lisa.andrews@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

TO: lindrewg@pwba.dol.gov (lindrewg@pwba.dol.gov [UNKNOWN])
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TO: lebowita@pwba.dol.gov (lebowita@pwba.dol.gov [UNKNOWN])
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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: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP@EOP [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

CC: Richard L. Siewert (CN=Richard L. Siewert/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

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

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

TEXT:
Sonyia - Note request at bottom for conf. call tuesday am.

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I don't know where things stand tonight. I am unfortunately leaving for the weekend in an hour. However, I can be reached through the signal operator all weekend. you can page me if you need me tomorrow.

I would like us to have a conference call on this on Tuesday morning. At least one policy person and all the leg people from DoL, Treas. and PBGC as well as WH leg affairs and NEC press should be on the call. Others welcome if they want. Sonyia -- please schedule and let folks know the call in number.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUL-1999 19:05:13.00

SUBJECT: Cash Balance Plan Disclosure -Reply

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

TO: Sonyia Matthews (CN=Sonyia Matthews/OU=OPD/O=EOP [OPD])
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TO: sirkin.stuart@pbgc.gov (sirkin.stuart@pbgc.gov [UNKNOWN])
READ:UNKNOWN

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

TO: paul.smith@do.treas.gov (paul.smith@do.treas.gov [UNKNOWN])
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TO: healy.monica@pbgc.gov (healy.monica@pbgc.gov [UNKNOWN])
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TO: gustafson.david@pbgc.gov (gustafson.david@pbgc.gov [UNKNOWN])
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TO: jane.molloy@mail.doc.gov (jane.molloy@mail.doc.gov [UNKNOWN])
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TO: donna.shackleford@do.treas.gov (donna.shackleford@do.treas.gov [UNKNOWN])
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TO: deborah.walker@do.treas.gov (deborah.walker@do.treas.gov [UNKNOWN])
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TO: akers-valerie@dol.gov (akers-valerie@dol.gov [UNKNOWN])
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TO: Michelle.A.Smith@do.treas.gov (Michelle.A.Smith@do.treas.gov [UNKNOWN])
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TO: Lisa.Andrews@do.treas.gov (Lisa.Andrews@do.treas.gov [UNKNOWN])
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TO: Harlan.Weller@do.treas.gov (Harlan.Weller@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Paul.Smith@do.treas.gov (Paul.Smith@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Gillian.Hunter@do.treas.gov (Gillian.Hunter@do.treas.gov [UNKNOWN])
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TO: William.Bortz@do.treas.gov (William.Bortz@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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READ:UNKNOWN

CC: Howard.Schloss@do.treas.gov (Howard.Schloss@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: Jon.Talisman@do.treas.gov (Jon.Talisman@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
Date: 07/01/1999 06:50 pm (Thursday)
From: 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."Cordelia_W._Reimers@cea.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",
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ex.mail."frank.toohey", ex.mail."gillian.hunter",
ex.mail."grant.joseph@pbgc.gov",
ex.mail."gustafson.david@pbgc.gov", ex.mail."harlan.weller",
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ex.mail."Janet_R._Forsgren@omb.eop.gov",
ex.mail."kramerich-leslie@dol.gov",
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CC: ex.mail."Broderick_Johnson@who.eop.gov",
ex.mail."Caroline_R._Fredrickson@who.eop.gov",
ex.mail."Charles_M._Brain@who.eop.gov",
ex.mail."Patrick_M._Dorton@opd.eop.gov",
ex.mail."Richard_L._Siewert@who.eop.gov", DOM3.DOPO5.SCHLOSSH,
TALISMANJ
Subject: Cash Balance Plan Disclosure -Reply

I just talked to Sarah and suggested we try to schedule the conference call for tomorrow morning, say 10 am, for a short time, provided the people Sarah referred to in her Email -- including Chuck, Brod and Caroline -- could make it then.

Sarah says she can participate in a call tomorrow morning. Please Email back whether you'd be available at 10; if not, what about 9:30 or 10:30? If we can get a quorum, we'll Email confirmation of the call tonight or more likely earlier tomorrow morning with a call-in number.

In addition to the questions Sarah raised, which we share, we'd like to discuss briefly

1. Do we understand that the Leg Affairs people believe that the Administration should not issue an announcement until we've received a letter from Members soliciting a proposal? There has been some uncertainty surrounding this -- whether this is pursuant to a request from Members/Janice, whether it would be bipartisan, etc. How soon do people expect they could get such a Members' request together -- giving an opportunity to sign on to all of the Members who need to be given that opportunity -- while Members are out on recess?

2. Reasons for concern about much more delay include not only

-- the fact that the drafters of the W&M and SFC marks (and House Ed & Workforce mark) have been asking for our proposal for over two weeks, have all started their own drafting since our proposal hasn't been forthcoming, and some have indicated that the window for our proposal having much influence on what they do is closing rapidly; but also

-- the prospect that certain Members -- some of whom we know are actively drawing up proposals -- will introduce their own proposals any day now that may be quite similar to ours. (Most of the ideas in our proposal are out there but haven't been embodied in proposed legislation, and there is an open middle ground that others will rush to fill.)

-- by the way, we believe the Secretary of the Treasury would sign an announcement at the present time; we hope that will also be the case next Tuesday, and will start to pursue that issue

3. Can people conceive of an appropriate way that Administration staff might at least orally share elements of the proposal with the committee staff drafting the marks pending formal issuance of the proposal? (There have been fairly extensive oral briefings of a fair number of solely Democratic Members' and Committee staffs thus far.) Or is it people's judgment that this would present an undue risk that the proposal would be stolen or an undue risk of other mischief or upset on the part of our friends on the Hill?

ex.mail."Sarah_Rosen_Wartell@opd.eop.gov" 07/01/99 04:42pm >>>
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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 14:42:42.00

SUBJECT: here it is

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
FROM: Cordelia Reimers

RE: Departure Memo

I. Currently active issues

A. SS) anti-poverty options. Bob Schoeni and I worked with a small working group (WG) headed by Jeff Liebman (then at NEC; went back to Harvard June 1) on ways to reduce elderly poverty, particularly among widows. Other key people: Diana Meredith & Jack Smalligan at OMB; Jane Ross, David Weaver, Alexa Hendley, Steve Goss, Eli Donkar, & others at SSA. Now this issue has moved to the overall SS Technical WG -- Doug Elmendorf of CEA and David Wilcox of Treasury are key there. See latest options memo dated 6/23/99 in folder in filing cabinet. In the fall I wrote a memo analyzing the labor supply effects of the NCRP minimum benefit proposal (see folder in filing cabinet).

B. SS -- elimination of earnings test. Other than to brief Janet a couple of times, I have not been actively involved in this one. It has been discussed by the overall SS Tech WG -- ask Doug Elmendorf (CEA) or David Wilcox (Treasury).

C. Pensions) Admin,s proposed legislation requiring disclosure for conversions to cash balance plans. See folder in filing cabinet for latest docs received via email. Sarah Rosen-Wartell (NEC) runs the Pensions WG; contact her to get briefed on where things stand re pension issues. Mark Iwry (Benefits Tax Counsel at Treasury), Stuart Sirkin (PBGC), Leslie Kramerich (Deputy Asst Secy of Labor for Pension and Welfare Benefits Admin) are the key agency reps. Dave Gustafson (Chief Actuary at PBGC) is good at explaining how CB and other DB plans work. Don Wellington at Treasury is good on 401(k) plans. DOL and Treasury worries more about protecting workers; whereas PBGC worries more about not burdening employers lest they abandon their DB plans (which are PBGC,s sole reason for existence, after all). We sided w/ Treasury and DOL in developing the consensus proposal on this issue, and we supported the final proposal.

D. OSHA) proposed ergonomics rule) a brand new issue. I have not been involved in OSHA issues, other than to comment on an occasional

Legislative Referral Memorandum (LRM). See email from Stuart Shapiro of OMB dated 6/29/99 (on my desk)) the first time I heard about this. Then Stuart left a message for me on Friday (7/9/99), saying that he has a very thick stack of paper containing the proposed rule that he wants to drop off with CEA. I sent him an email to contact Mike. Consider Mike,s and Robin,s interest/ expertise and discuss w/ Janet how much effort to put into this, and OSHA generally, vs the other demands on their time. The question is, can CEA make a difference w/ a reasonable investment of time, and w/o jeopardizing higher-priority items?

E. New Markets Initiative) i.e., getting private investment into & untapped8 retail and labor markets (aka poor urban and rural areas). HUD (Susan Wachter), Treasury, and SBA have done most of the work on this. Bert Huang covered this until June; then I went to a couple of meetings and helped Cliff Kellogg (Treasury) and Carl Haacke (NEC) with definitions of &inner city8 census tracts used in the academic lit and identifying sources of data. We felt CEA couldn,t contribute much beyond this, since the research lit on the effectiveness of policy tools in stimulating investment in depressed areas is not encouraging. If they want a survey of the lit, some of the papers are in the filing cabinet. Check w/ Cliff Kellogg if Mike wants to get involved; or he may contact him, now that the Presidential tour of &new market8 areas this past week is over.

II. Other issues (dormant, at least for the time being)

A. Expanding pension coverage.
In the fall the Pensions WG prepared a package of incremental pension reforms to increase portability, security, and coverage, which were introduced as bills early in 1999 (see folder on Pension Legis in filing cabinet). We supported these.

Before the cash balance plan disclosure legislation took over, this spring the Pensions WG was considering ways to expand pension coverage for lower-paid workers. PBGC and DOL produced agency position papers (see folder in filing cabinet); so far Treasury hasn,t. I am not quite sure whether this is because they couldn,t agree internally or because they wanted to stall, hoping the issue of raising limits (see below) would blow over. Sarah Rosen (NEC) may resume pressuring Treasury for a paper now that the CB disclosure legislation has been introduced.

The Portman-Cardin pension bill, to which the Admin wants an alternative, would raise the salary, contribution, and benefit limits used in calculating pensions. The Pensions WG generally seems ready to give in on this, if they could use it to expand coverage for lower-paid workers. PBGC,s paper says that raising the limits is necessary to preserve/expand DB plans. Their theory is that top managers now have no personal stake in their firm,s pension plan for lower-paid workers because of the limits, but would maintain/adopt DB plans for lower-paid workers if the limits were raised so that they could get larger pensions from the same tax-qualified plan as the workers. PBGC,s overriding concern seems to be to preserve/expand DB plans at any price.

DOL,s paper goes along with raising the limits, but they want to add requirements that protect/extend pension coverage and benefits for lower-paid workers in return for higher limits. Apparently they are influenced by organized labor,s support of DB plans.

Becky and I opposed raising the limits, because it would amount to a large tax cut for extremely high-income employees, and because we doubt that it would have much effect on firms, pension coverage for lower-income workers. We are not as concerned as PBGC and DOL are about preserving DB plans. The economics lit on the shift from DB to DC plans suggests that it has been driven by changes in the labor market that are stronger than managers, personal stake in a DB plan, and that it may benefit workers on balance. We believe that DOL is not asking for enough benefits for lower-income workers to offset the cost of the lost tax revenue from high-income employees.

Although Treasury never produced a paper, we have some potential allies there. Mark Iwry agreed with me that a costly tax expenditure on very high-income employees is a bad idea. Apparently all three agencies have been worn down by pressure from employers to raise the limits, and believe that an increase in the limits is inevitable (&if you can,t lick 'em, join 'em8). I had planned to prepare a CEA memo outlining the case against raising the limits, but postponed it when the Pensions WG turned its attention to the CB disclosure issue, and then ran out of time. If you want to pick up on this, you could call me to discuss some of my ideas.

B. Women, Families, and Children

1. Paid parental leave. Nicole Rabner (DPC) is the main contact; also see folder in filing cabinet. There being no room in the budget to pay for parental leave, the main issue this year was whether DOL should allow states to use Unemployment Insurance (UI) funds to pay for parental leave if they wish to do so. Four states, including MA and VT, have had such bills in their legislature, and there was much pressure from Hill Dems (Senators Kennedy, Leahy et al), White House, and women,s groups to allow this. DOL/UI Service (headed by Grace Kilbane) opposed it, arguing that UI trust fund surpluses should be preserved for a recession, and that UI has always been restricted to persons who are laid off by their employer and are immediately available for work. UIS argued that use for parental leave would compromise the integrity of the UI system and open the door to other diversions of UI funds. DPC argued that there were other exceptions to the general UI rules, that states should be allowed to experiment if they wished, and that in any case, states were unlikely actually to enact such legislation in the near future.

We argued that states should only be allowed to use UI for parental leave if the additional cost is covered by an additional tax that is not experience-rated, so as not to jeopardize the solvency of the UI trust funds and not to give employers an incentive to discriminate against women of child-bearing age. Gene Sperling supported this view at the Principals meeting, having been briefed by Becky Blank. But DOL cannot make detailed UI rules for states; it can only set broad rules and propose model legislation. An options memo was prepared for the President, who decided to order DOL to prepare regs that would allow states to use UI funds for new-baby leave. DOL is in the process of developing these regs and writing model legislation, so this issue will come up again in 1999-2000.

2. Equal pay data collection. Tom Freedman and Mary Smith (DPC) are the main contacts; also see folders in filing cabinet. The Admin opposed Senator Harkin,s &comparable worth8 bill, but helped Senator Daschle draft legislation to provide for better enforcement of the Equal Pay Act. EEOC (headed by Ida Castro) was already (and still is) in the process of revising the EEO-1 form to collect data from employers on the gender and race/ethnic composition of 15 occupational categories, and wants to collect pay information on the same form. DOL/OFCCP (headed by Bernie Anderson, I believe) is also working on methods for collecting pay data earlier in the audit process for Federal contractors. Harry Holzer (Chief Economist at DOL) knows about this; Ed Montgomery (Deputy Secy) does, too.

Our position was that the costs outweigh the benefits of this effort. The quality of the data would be suspect because employers have little incentive to report pay data accurately if it might subject them to litigation. The burden on employers would be high because they do not normally keep pay records in this way. This pay data would provide little useful information about pay discrimination, because average pay could differ within 15 broad occupational categories because of gender or racial/ethnic diffs in education, experience, and specific jobs. We suggested that EEOC could use existing Census and other data on pay by occupation, gender, race/ethnicity, education, age, and narrow industry and geographic location to help EEOC target investigations of potential Equal Pay Act violations. As I recall, Josh Gotbaum of OMB was on our side, as was Bernie Anderson of DOL.

In the end, politics won and DPC proposed draft legislation to Sen Daschle providing that the EEOC be directed to develop methods for collecting data on pay from employers. The EEOC is working on its proposed EEO-1 revision, and DOL is working on its OFCCP audit requirements. So this issue will come up again!

3. Gender pay gap.
At the request of Tom Freedman and Mary Smith (DPC), we produced estimates of the lifetime gender pay gap by cohort, both &raw8 and corrected for gender diffs in education, experience, industry, and occupation.
At their request we also wrote a memo and an op-ed signed by Janet critiquing the AEI book, Women,s Figures. Jennie Luray of the White House Women,s Office says they are still trying to place the op-ed.
See WEB articles on these topics, and folders in filing cabinet.

4. Child care. Nicole Rabner (DPC) heads this WG; Nora Gordon represented CEA at the meetings in the fall. This spring they have held a weekly conference call at 5:00 on Thursday afternoons to discuss legislative strategy and monitor developments on the Hill. Not much new policy development or role for CEA this year.

5. &Families Report.8 Completed CEA report, Families and the Labor Market, 1969-1996: Analyzing the Time Crunch -- copies are in CEA main office & on CEA web page; master copy is in folder in filing cabinet and in h:\families\famfinal.wpd file on CEA network.

C. Education and Training

1. Minorities in higher education. Ceci Rouse and Bob Shireman, who were at NEC last fall but have since left, ran the Ed & Training WG. We worked on a number of Dept of Ed budget proposals to improve degree attainment of minorities in higher education; e.g., modifying financial aid, student support services, articulation between 2-year and 4-year colleges (see folder in filing cabinet). This WG has been inactive this spring. I think Brian Kennedy of NEC is supposed to cover ed & training issues. At the Dept of Ed, David Longanecker took the lead, David Bergeron knows the data, Norris Dickard also knows a lot.

2. Adult basic skills. In the fall Ceci Rouse ,s now-inactive E&T WG also worked on Dept of Ed budget proposals to improve adult basic skills ed. One idea was to provide employer tax credits for workplace training in literacy and other basic skills. Trish McNeil, the Asst Secy for Adult Ed, was the Dept of Ed ,s leader on this.

One of the basic questions in the ed & training area is whether the Federal govt should use tax credits or competitive grants to encourage desired activities. Tax credits make aid widely available, but it may be hard to monitor them and to control costs; grants limit the number who get aid. Considerations of how grants vs tax credits will be scored by OMB for budget purposes can influence these decisions. See Tom Kane ,s discussion of this wrt financial aid for college students, on p. 7 of his paper in the folder on financial aid for higher ed in filing cabinet.

D. Labor Market

1. Welfare-to-Work & Work Opportunity Tax Credits
See 6/29/99 email from Len Burman (Treasury) re riders to min wage bill (in file drawer -- I did not have any info so did not respond).

During budget prep in Dec/Jan, there was an OMB proposal to charge user fees for employers applying for these tax credits. We took the position that this would undermine the purpose of the credits; i.e., to encourage employers to hire these people when they otherwise don ,t want to. Raising the cost discourages them at the margin and sends a mixed message. We won.

2. Unemployment Insurance reform.
A package of reforms were proposed by DOL/UIS and discussed/modified in the fall by a group headed by John Orszag, then at NEC, now at Commerce. In the end, they did not make it into the budget proposal. Probably they will try again for FY01 budget. Grace Kilbane heads the UI Service in DOL. Carole Kitti at OMB is good at explaining UI issues.

E. Health & SS. In the fall Bob Schoeni and I worked with a WG headed by Mark McClellan of Treasury on estimating the number of workers in poor health or in strenuous/stressful jobs who would be adversely affected by raising the NRA. We also collected data on job accommodation by employers (see folders in filing cabinet).

III. Guide to files

A. Filing cabinets.
Agency documents and memos circulated by the WGs, CEA memos, outside research papers, and most data tables and other material I used this year are in labeled folders in the filing cabinets, organized by topic as indicated by labels on the file drawers.

B. Bookshelves near window (a partial inventory).
Top shelf.
References such as ERPs, Stata manuals, 1998 Stat Abstract, Green Book, EBRI Handbook.
Next few shelves.
Statistical reports -- income & poverty stats (Census), pension stats (PWBA), minority- & women-owned businesses (SBA).
Papers from conferences on time use, SSI, American Community Survey, etc.
Legislative Referral Memorandums (LRMs) on miscellaneous topics (e.g., testimony by OSHA, Census Bureau, etc). LRMs on pensions and other issues I worked on are in the filing cabinets with the other WG materials.
Bottom 2 shelves.
Files left by predecessors from earlier years, which I never had time to sort out.

C. Glass-fronted bookcase.
CEA reports on EITC, child care, chart book on racial diffs.
Economic Indicators, DOL press releases.
1998-99 WEBs.
SSA 1998 Annual Statistical Supplement, 1994-95(?) Advisory Council Report.
Old issues of SS Bulletin and Employment & Earnings.
Dictionary, telephone directories.

D. Bookshelves near door.
Upper shelves.
Material from previous years, including reports on health, Medicare, long term care, and Unemployment Insurance.
Mail from outside organizations, addressed to predecessors, which I never had time to open.
Files left by predecessors from earlier years, which I never had time to sort out.
Bottom shelves.
Supplies.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-AUG-1999 19:23:17.00

SUBJECT: multiemployer section 415 relief

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TO: Oscar Gonzalez (CN=Oscar Gonzalez/OU=OMB/O=EOP [OMB])
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CC: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP [OPD])
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TEXT:
Date: 08/02/1999 07:11 pm (Monday)
From: Mark Iwry
To: Dom13.DOPO7(BORTZW, BurmanL, HUNTERG, NULLA, RICHARDSOND, SHACKLEFORDD, SMITHPA, WALKERD, WELLERH, WellingtonD), DOM3.DOPO5(ANDREWSL, TooheyF), ex.mail("Gay_L._Joshlyn@opd.eop.gov", "akers-valerie@dol.gov", "amy.null", "Bruce_D._Long@omb.eop.gov", "David.Richardson", "David_W._Beier%OVP@oa.eop.gov", "deborah.walker", "donald.wellington", "donna.shackleford", "Douglas_D._McCormick@omb.eop.gov", "frank.toohey", "gillian.hunter", "grant.joseph@pbgc.gov", "gustafson.david@pbgc.gov", "harlan.weller", "healy.monica@pbgc.gov", "hinzr@pwba.dol.gov", "holzer-harry@dol.gov", "jane.molloy@mail.doc.gov", "Janet_R._Forsgren@omb.eop.gov", "kramerich-leslie@dol.gov", "krist.karen@pbgc.gov", "Laurence_R._Jacobson@omb.eop.gov", "lebowita@pwba.dol.gov", "lees@pwba.dol.gov", "LEONARD.BURMAN", "lindrewg@pwba.dol.gov", "lisa.andrews", "Lisa_B._Fairhall@omb.eop.gov", "mark.iwry", "Mark_D._Menchik@omb.eop.gov", "maroney-kevin
CC: ex.mail("Sarah_Rosen_Wartell@opd.eop.gov"),
Subject: multiemployer section 415 relief

As requested, attached is a description of a possible approach, consistent with what we discussed in our recent conference call.
- MULTIE~3.WPD=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D74]ARMS26052151W.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 ADMINISTRATION'S PROPOSAL

The following describes a possible expansion of 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 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: 3-AUG-1999 08:35:52.00

SUBJECT: Re: multiemployer section 415 relief

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TEXT:
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.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D52]ARMS215905418.236 to ASCII,
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================== END ATTACHMENT 1 ==================

August 2, 1999

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

CREATION DATE/TIME: 3-AUG-1999 13:45:00.00

SUBJECT: RE: multiemployer section 415 relief

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

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

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

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

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

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

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

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

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

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

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

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

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

TO: Krist Karen <Krist.Karen@PBGC.GOV> (Krist Karen <Krist.Karen@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

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

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

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

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

TO: Grant Joseph <Grant.Joseph@PBGC.GOV> (Grant Joseph <Grant.Joseph@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

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

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

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

TO: David W. Beier@OVP (David W. Beier@OVP [UNKNOWN])
READ:UNKNOWN

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

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

TO: Lisa.Andrews@do.treas.gov (Lisa.Andrews@do.treas.gov [UNKNOWN])
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TO: Harlan.Weller@do.treas.gov (Harlan.Weller@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Paul.Smith@do.treas.gov (Paul.Smith@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

TO: Gillian.Hunter@do.treas.gov (Gillian.Hunter@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: William.Bortz@do.treas.gov (William.Bortz@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

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

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

TO: Healy Monica <Healy.Monica@PBGC.GOV> (Healy Monica <Healy.Monica@PBGC.GOV> [UNKNOWN])
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TO: Gustafson David <Gustafson.David@PBGC.GOV> (Gustafson David <Gustafson.David@PBGC.GOV> [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

TO: Frank.Toohey@do.treas.gov (Frank.Toohey@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Donald.Wellington@do.treas.gov (Donald.Wellington@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Deborah.Walker@do.treas.gov (Deborah.Walker@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Donna.Shackleford@do.treas.gov (Donna.Shackleford@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Amy.Null@do.treas.gov (Amy.Null@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Leonard.Burman@do.treas.gov (Leonard.Burman@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: "'Mark.Iwry@do.treas.gov'" <Mark.Iwry@do.treas.gov> ("'Mark.Iwry@do.treas.gov'" <Mark.Iwry@do.treas.gov>
[UNKNOWN])
READ:UNKNOWN

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

TEXT:
Two general comments on the multiemployer piece.

1. There is a reference on the bottom of the background section to
what
the multis are pushing, but the reference is to another document (which the
reader may or may not be completely familiar with). Also there is no
indication that what the multis are pushing in that document is more than
we
are suggesting as a modification. Isn't that information that should be
included in this paper.

2. On the rationale. It looks like engaging in physical labor and
high
turnover/inability to get jobs at older ages are two separate reasons we
are
doing this. Rewriting the sentence to make clear it is the combination of
the two (not either alone) would better distinguish the multi situation
from
the single employer industrial union situation.

-----Original Message-----
From: Mark.Iwry@do.treas.gov [mailto:Mark.Iwry@do.treas.gov]
Sent: Monday, August 02, 1999 7:21 PM
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.gov;

David.Richardson@do.treas.gov; David_W._Beier%OVP@oa.eop.gov; deborah.walker@do.treas.gov; donald.wellington@do.treas.gov; donna.shackleford@do.treas.gov; Douglas_D._McCormick@omb.eop.gov; frank.toohey@do.treas.gov; Gay_L._Joshlyn@opd.eop.gov; 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; jane.molloy@mail.doc.gov; Janet_R._Forsgren@omb.eop.gov; kramerich-leslie@dol.gov; krist.karen@pbgc.gov; Laurence_R._Jacobson@omb.eop.gov; lebowita@pwba.dol.gov; lees@pwba.dol.gov; LEONARD.BURMAN@do.treas.gov; lindrewg@pwba.dol.gov; lisa.andrews@do.treas.gov; Lisa_B._Fairhall@omb.eop.gov; mark.iwry@do.treas.gov; Mark_D._Menchik@omb.eop.gov; maroney-kevin@dol.gov; mcgahey-richard@dol.gov; mcknight-avis@dol.gov; montgomery-edward@dol.gov; Natasha_F._Bilimoria@opd.eop.gov; Oscar_Gonzalez@omb.eop.gov; pacelli.jane@pbgc.gov; paul.smith@do.treas.gov; Pieter_J._Boelhouwer%OVP@oa.eop.gov; Robin_L._Lumsdaine@cea.eop.gov; schub.judy@pbgc.gov; sirkin.stuart@pbgc.gov; turner-john@dol.gov; watsons@pwba.dol.gov; william.bortz@do.treas.gov
Cc: Sarah_Rosen_Wartell@opd.eop.gov
Subject: multiemployer section 415 relief

Date: 08/02/1999 07:11 pm (Monday)
From: Mark Iwry
To: Dom13.DOPO7(BORTZW, BurmanL, HUNTERG, NULLA, RICHARDSOND, SHACKLEFORDD, SMITHPA, WALKERD, WELLERH, WellingtonD), DOM3.DOPO5(ANDREWSL, TooheyF), ex.mail("Gay_L._Joshlyn@opd.eop.gov", "akers-valerie@dol.gov", "amy.null", "Bruce_D._Long@omb.eop.gov", "David.Richardson", "David_W._Beier%OVP@oa.eop.gov", "deborah.walker", "donald.wellington", "donna.shackleford", "Douglas_D._McCormick@omb.eop.gov", "frank.toohey", "gillian.hunter", "grant.joseph@pbgc.gov", "gustafson.david@pbgc.gov", "harlan.weller", "healy.monica@pbgc.gov", "hinzr@pwba.dol.gov", "holzer-harry@dol.gov", "jane.molloy@mail.doc.gov", "Janet_R._Forsgren@omb.eop.gov", "kramerich-leslie@dol.gov", "krist.karen@pbgc.gov", "Laurence_R._Jacobson@omb.eop.gov", "lebowita@pwba.dol.gov", "lees@pwba.dol.gov", "LEONARD.BURMAN", "lindrewg@pwba.dol.gov", "lisa.andrews", "Lisa_B._Fairhall@omb.eop.gov", "mark.iwry", "Mark_D._Menchik@omb.eop.gov", "maroney-kevin
CC: ex.mail("Sarah_Rosen_Wartell@opd.eop.gov"),
Subject: multiemployer section 415 relief

As requested, attached is a description of a possible approach, consistent with what we discussed in our recent conference call.
Information in the headers for this message suggest that it may be spoofed and that its authenticity should be verified.
****

****

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Mcknight Avis <mcknight-avis@dol.gov> (Mcknight Avis <mcknight-avis@dol.gov> [UNKNOWN])

CREATION DATE/TIME: 4-AUG-1999 13:28:15.00

SUBJECT: RE: Pension Group Meeting

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

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

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

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

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

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

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

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

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

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

TO: Healy Monica-PBGC <healy.monica@pbgc.gov> (Healy Monica-PBGC <healy.monica@pbgc.gov> [
UNKNOWN])
READ:UNKNOWN

TO: Akers Valerie <akers-valerie@dol.gov> (Akers Valerie <akers-valerie@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Holzer Harry <holzer-harry@dol.gov> (Holzer Harry <holzer-harry@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Watson Sharon-PWBA <watsons@pwba.dol.gov> (Watson Sharon-PWBA <watsons@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

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

TO: Lee Stephen-PWBA <lees@pwba.dol.gov> (Lee Stephen-PWBA <lees@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

READ:UNKNOWN

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

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

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

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

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

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

TO: Turner John <turner-john@dol.gov> (Turner John <turner-john@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Montgomery Edward <montgomery-edward@dol.gov> (Montgomery Edward <montgomery-edward@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: McGahey Richard <McGahey-Richard@dol.gov> (McGahey Richard <McGahey-Richard@dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Lindrew Gerald-PWBA <lindrewg@pwba.dol.gov> (Lindrew Gerald-PWBA <lindrewg@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Lebowitz Alan-PWBA <lebowita@pwba.dol.gov> (Lebowitz Alan-PWBA <lebowita@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: Hinz Richard-PWBA <hinzr@pwba.dol.gov> (Hinz Richard-PWBA <hinzr@pwba.dol.gov> [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier@OVP (David W. Beier@OVP [UNKNOWN])
READ:UNKNOWN

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

TEXT:
Per Sarah Rosen - we're re-circulating the DOL's paper for everyone's convenience in comparing it with Treasury's.

<<cov1.wpd>> <<cov_app.wpd>>

From:
Gay_L._Joshlyn@opd.eop.gov[SMTP:Gay_L._Joshlyn@opd.eop.gov]
Sent: Monday, August 02, 1999 4:35 PM
To: 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;
Laurence_R._Jacobson@omb.eop.gov; Bruce_D._Long@omb.eop.gov;
Janet_R._Forsgren@omb.eop.gov; Oscar_Gonzalez@omb.eop.gov;
Lisa_B._Fairhall@omb.eop.gov; Douglas_D._McCormick@omb.eop.gov; Hinz
Richard-PWBA; Kramerich Leslie; Mcknight Avis; Lebowitz Alan-PWBA; Lee
Stephen-PWBA; Lindrew Gerald-PWBA; Maroney Kevin; McGahey Richard; Watson
Sharon-PWBA; Montgomery Edward; Holzer Harry; Turner John; Akers Valerie;
grant.joseph@pbgc.gov; Healy Monica-PBGC; 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; Robin_L._Lumsdaine@cea.eop.gov
Cc: Sarah_Rosen_Wartell@opd.eop.gov
Subject: Pension Group Meeting

The Pension Working Group will meeting tomorrow morning, August 3
at
9:00
am in OEOB Room 248. The usual group will be cleared into the
building.

Thanks.

- cov1.wpd - cov_app.wpd=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D1]ARMS27890561O.236 to ASCII,
The following is a HEX DUMP:

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D1]ARMS29990561P.236 to ASCII,
The following is a HEX DUMP:

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

DRAFT May 2, 2016 (10:29AM)

"Making the Promise Real" Increasing Coverage and Benefits for Rank and File Workers: What Must Be Done

I. The Challenge

The private pension system is an indispensable part of the retirement security of American workers and their families. Approximately 47 million private sector workers are earning pension benefits in their current jobs. This is more than four times as many workers as fifty years ago and nearly twice the number as recently as the late 1960's.

Despite these remarkable achievements, much more remains to be accomplished. The proportion of the workforce earning pensions — about one-half of full-time private employees — has remained virtually constant for almost three decades. In addition, there are troublesome gaps in coverage. Coverage is lower among women, minorities, and especially lower-paid workers. Just 19 percent of full-time, full-year workers earning less than $15,000 annually were covered by a pension plan in 1997, compared with 74 percent of those earning $50,000 or more (chart 1). The challenge is not simply to expand coverage, but to expand it in a manner that reduces these gaps.

Why is pension coverage stagnating? One reason is that few small employers offer pension plans (chart 2). The private pension system is voluntary. For plans to thrive, employers and workers must perceive mutual advantage in allocating a portion of compensation toward pensions. Unfortunately, many small employers see no advantage in offering pension plans. Many blame complex and inflexible pension regulations, which make it too costly to fund and administer plans, and tight limits on the benefits that small business owners may provide for themselves and their key employees.

Given static coverage numbers, the persistently low rates of plan sponsorship among small employers, and the impending retirement of the "baby boomer" generation, the time has come to increase financial incentives and flexibility for employers who sponsor pension plans. Such reforms promise to encourage more employers to sponsor pension plans.

Increased incentives and flexibility for employers are only half of a winning formula, however. Current law permits employers to exclude some workers from their plans,[1] or require workers to pay a large share of their own pension and allow them to opt out. Consequently, many lower-paid workers whose employers sponsor plans are not included in those plans today (chart 3). Among workers who *are* covered, *benefits* are often slanted disproportionately toward high-paid workers. About one-half of all workers covered by traditional "defined benefit" (DB) pension plans participate in plans that skew benefits by design.[2] The resulting disparity in benefits can be substantial (chart 4). In addition, covered workers who change jobs frequently may forfeit all or some benefits.[3] Lower-paid workers tend to have shorter service, and are therefore more likely to forfeit benefits (chart 5).

Given these realities, it is clear that we must do more than provide greater incentives and flexibility to employers who sponsor plans. We must ensure that the benefits of these new incentives and flexibility reach rank-and-file workers as well as the highly-paid. We must make the promise real for the workers who need it most.

[1] For example, employers generally may exclude part-time workers, very young workers, and workers who have completed less than one year on the job. They may arbitrarily exclude 30 percent or more of the others, irrespective of their hours, age, or tenure.

[2] U.S. Bureau of Labor Statistics.

[3] Under current law, workers may forfeit all benefits if they leave before completing 5 years of service.

II. The Opportunity

Growing retirement worries and improving fiscal conditions together provide an opportunity for the Administration to shore up the private pension system for its own core constituency: rank-and-file workers, especially women, minorities, and small firm employees. At the same time, the Administration can assume leadership in the effort to streamline cumbersome pension rules, while neutralizing the possibility that reform will shift pension benefits and tax incentives from lower- to high-paid workers.

A few years ago such an initiative could not have succeeded.

Business advocates have long favored sweetening pension tax incentives and loosening restrictions on their availability. But during the 1980s and early 1990s, the federal deficit posed a formidable obstacle to such reforms. Consumer and labor advocates, who perceived that liberalized pension tax incentives would accrue disproportionately to high-paid workers, preferred policies that targeted scarce federal tax resources more directly at rank-and-file workers and lower-income families. Any pension reform crafted to expand coverage and benefits for large numbers of rank-and-file workers would be expensive. In fact, most reforms during this period curtailed and/or restricted pension tax incentives rather than liberalizing them.

Today the environment has changed.

Stagnant coverage, erosion of DB plans among small and medium-sized companies, growing dissatisfaction with increasingly complex and restrictive pension rules, and looming baby-boomer retirements have broadened and intensified support for liberalizing pension tax incentives. Many in the Administration now advocate liberalizations for defined benefit plans. The ERISA Advisory Council, which spans business and consumer interests, has unanimously recommended liberalizations for small firms. There is bipartisan support for liberalization in both houses of Congress, with provisions appearing in the Portman-Cardin, Graham-Grassley, Roth-Baucus, and Blunt-Bensten bills.

At the same time, the Administration has successfully tamed the federal deficit. With the federal budget in surplus, it is finally possible to entertain liberalizing pension tax incentives in ways that will reach large numbers of rank-and-file workers. We can make the promise real.

Proposals put forward so far largely track the traditional business agenda of larger incentives with fewer restrictions. Unfortunately, the effect (and sometimes the intent) of such measures is to encourage plan sponsorship by allowing employers to *redirect* coverage and benefits from lower- to high-paid workers rather than to encourage employers to *expand* coverage and benefits for *all* workers.

III. The Strategy

The Administration can seize the initiative by recasting these proposals to reflect the traditional consumer/labor agenda and thereby appeal to the Administration's core constituency. Larger tax incentives could be reserved for employers who do right by their rank-and-file workers. Employers could be granted new flexibility in how they do this — for example, they could use the new hybrid DB/DC designs advocated by PBGC — but they would *not* have the flexibility to enrich benefits exclusively for the high-paid elite.

In this way, the Administration can carry the banner of ending pension over-regulation and saving defined benefit plans, right alongside its banner of championing the rank-and-file. Any adversaries in the business community will be forced to explain why they should be granted bigger tax breaks if they are unwilling to provide meaningful benefits to their rank-and-file. Moreover, by advocating incentives for employers who do right, the Administration can moderate a potential tax give-away for the well-off without having to vocally oppose simplification and relaxation of admittedly cumbersome pension laws.

It is essential to the success of this strategy that the two pieces be tightly linked. Increased incentives and flexibility must be available only to employers who meet high standards for rank-and-file coverage and benefits. Otherwise, there is too great a risk that business interests will take advantage of the Administration's support for increased incentives and flexibility but make every effort to block the higher standards for rank-and-file coverage and benefits. Likewise, the core of the high standards must apply only to employers who take advantage of increased incentives and flexibility. Otherwise, the high standards will be attacked as harmful to existing employers, who must change their plans to comply. The unified proposal will "do no harm," and simultaneously will encourage more employers to set up and/or enrich plans for rank -and-file workers.

IV. The Proposal

Achieving the delicate balance between incentives to sponsor pension plans and protections to ensure broad access and fairness is difficult but possible. The Administration could pursue reform under two major headings:

A. Liberalize tax incentives for plans that adhere to high standards of benefit fairness. Employers taking advantage of the newly expanded pension tax incentives could be required to:

1. Cover a larger proportion of their rank-and-file workers,
2. Provide a minimum benefit to all covered workers,
3. Not cut lower-paid workers' benefits below levels permitted under current law, and/or

4. Provide shorter-service workers with non-forfeitable or "vested" rights to their benefits.

B. Patch cracks in benefit fairness standards to help workers who might otherwise fall through. These reforms would apply to all plans. Options include:

1. Narrow the disparity between high- and lower-paid workers' benefits by tightening applicable restrictions,
2. Ensure fair accounting of benefit disparities by barring employers from "balancing" benefits that high-paid workers keep against those lower-paid workers forfeit, and/or
3. Stem the flow of forfeited benefits from lower- to high-paid workers' accounts.

These options for reform are not intended to be exhaustive. The Administration should consult with all affected constituencies to gauge reactions to these ideas and solicit new ones. The bottom line is to craft a unified set of reforms that would both encourage more plan sponsorship and ensure that expanded coverage and benefits reach rank-and-file workers.

The reform options listed above are detailed in the appendix to this document.

DRAFT May 2, 2016 (10:30AM)

"Making the Promise Real"
Increasing Coverage and Benefits for Rank and File Workers
Appendix: Options for Reform

A. Liberalize Tax Incentives for Plans that Adhere to High Standards

A number of proposals have been put forward to increase pension tax incentives. These include:

- Raising the limits on benefits that may be provided to individual workers.
- Increasing the amount of compensation that may taken into account when determining individual workers' benefits.

These measures would encourage more employers to sponsor plans. As such, they represent a crucial step toward closing gaps in pension coverage and benefits. By themselves, however, these measures will not ensure that pension benefits reach the workers who need them most.

Current law balances current pension tax incentives with minimum standards intended to ensure that benefits reach a reasonable cross section of workers. Nonetheless, under current law, employers may exclude some workers from their plans, or require some workers to pay a large share of their own pension and allow them to opt out. Lower-paid covered workers may accumulate disproportionately smaller benefits than their high-paid counterparts — sometimes far smaller or even zero benefits. Finally, plans may provide that covered workers with short service forfeit their benefits when they leave their jobs.

What does all of this mean? In practice, if an employer offers a pension plan, departing high-paid employees almost always walk out with generous pension benefits, while many departing rank-and-file workers walk out with little or nothing.

While expanding incentives for employers to offer pensions, then, we must also take steps to ensure that those incentives reach the rank-and-file workers who need pensions most. These measures would apply only to employers that take advantage of new pension incentives, so there would be no new burden on existing plans.

Employers taking advantage of the newly expanded pension tax incentives could be required to:

1. Cover a larger proportion of their rank-and-file workers,
2. Provide a minimum benefit to all covered workers,
3. Not cut lower-paid workers' benefits below levels permitted under current law, and/or

4. Provide shorter-service workers with non-forfeitable or "vested" rights to their benefits.

1. Cover a Larger Proportion of Rank-and-File Workers

Current law

Plans generally must cover a minimum proportion of all "non-excludable" workers — those who are at least 21 years old, have at least one year of service, and work at least 1000 hours per year. The minimum proportion is never more than 70 percent, and can be as little as 20 percent — or less if not all high-paid employees are covered.

More specifically, under current law:

Plans must meet one of two coverage standards. The proportion of lower-paid workers covered by a plan must equal at least 70 percent of the proportion of high-paid workers covered. (This percentage is known as the "ratio percentage.") Alternatively, the plan must cover a certain class of workers (as long as the class does not discriminate in favor of high-paid workers), but lower-paid workers' "average benefit percentage" must equal at least 70 percent of that of high-paid workers. (The average benefit percentage generally means the average ratio of benefits to pay, considering all non-excludable workers, whether covered or not.)

If the plan elects to cover a certain class of workers, it must also maintain a ratio percentage of at least a certain level. That level generally ranges from 20 percent to 50 percent as the proportion of workers who are high-paid increases. Also, it generally is lower (within the range) if the plan is able to convince Treasury that its employee class is reasonable based on facts and circumstances.

Effects

Employers who provide pensions to all of their high-paid workers always can easily exclude up to 30 percent of lower-paid, so-called "non-excludable" workers, and may be able to exclude as many as 80 percent. In fact, a very large proportion of lower-paid employees whose employers offer pensions are not included in their employers' plans.

Under current law, any expansion in pension tax incentives will likely accrue mainly to high-paid workers. Many lower-paid workers will be left out entirely.

Proposal

Employers taking advantage of newly expanded pension tax incentives would be required to cover a larger proportion of their rank-and-file workers.

Result

New plans established in response to expanded tax incentives would benefit a broad cross-section of rank-and-file workers. Many employers that already offer plans would be encouraged to cover more of their lower-paid workers in order to qualify for expanded tax incentives.

Approach

Employers would substitute 90 percent for 70 percent when calculating the ratio and average benefit percentages. The minimum ratio percentage for those electing to cover a certain class of workers would range from 40 percent to 70 percent.

(Requires legislation)

2. Provide a Minimum Benefit to All Covered Workers

Current law

A set of laws and regulations currently sets a somewhat uneven floor for lower-paid covered workers' benefit levels under various plans and circumstances.

For example, so-called "nondiscrimination" provisions restrict disparities between high- and lower-paid workers' benefit accruals. Likewise, high- and lower-paid workers' average voluntary contributions to 401(k) plans must not diverge beyond set limits, unless the plan includes certain design features supportive of lower-paid worker benefits. Certain plans that provide a very large proportion of all benefits to key employees, known as "top heavy" plans, generally must provide faster vesting and certain more generous minimum benefits than other plans.

Effects

The rules referenced above restrict, but do not prohibit, disparities between high- and lower-paid workers' benefits. In fact, plans often provide disproportionately smaller benefits to lower-paid covered workers. Some lower-paid, so-called "covered" workers may accumulate no benefits at all. Therefore, even among covered workers, under current law any expansion in pension tax incentives may accrue mainly to high-paid workers.

Proposal

Employers taking advantage of newly expanded pension tax incentives would be required to provide certain minimum benefits for all covered rank-and-file employees.

Result

Essentially all covered workers whose employers utilize expanded pension tax incentives would accrue meaningful benefits.

Alternative approaches

B. Plans would have to provide certain benefits which tend to advantage younger and lower-paid workers. These benefits would consist of automatic, immediately vested contributions to individual accounts (defined contribution plans) which cover all workers who have worked at least six months (and 500 hours in that six-month period).

C. Plans would be treated as top heavy for purposes of providing minimum benefits or contributions. (Top heavy plans are generally those under which 60 percent or more of accrued benefits are attributable to key employees. Top heavy plan benefits must vest all at once after 3 years of service or gradually over 6 years. Top heavy defined benefit plans must provide retirement benefits of at least 2 percent of pay for each year of service, or 20 percent of pay, whichever is less. Top heavy defined contribution plans must provide contributions of at least 3 percent of pay, or less if no key employee's contribution is that large.)

D. Plans would be treated as top heavy for purposes of providing minimum benefits or contributions if 40 percent of the value of total accrued benefits under the plan is attributable to key employees.

(Requires legislation)

3. Prohibit Cutting Benefits Below Levels Permitted Under Current Law

Current law

As noted above, current law includes nondiscrimination provisions that restrict disparities between high-and lower-paid workers' benefit accruals.

Effects

Proposals to expand pension tax incentives may weaken some of these restrictions.

One proposed expansion in tax incentives for employers who offer pensions involves increasing from $160,000 to $235,000 or more the amount of compensation that can be included when calculating a high-paid workers' benefit.

By itself, this reform would have the effect of relaxing restrictions on disparity between high-and low-paid workers benefits. In fact, some lower-paid employees might receive smaller benefits than they would have under current law.

Consider an employer that now credits 1% of compensation up to $160,000 to employees' defined contribution accounts. Under this proposal, the employer might credit 0.8% of compensation up to $235,000 to employee accounts. This would reduce benefits for rank-and-file workers while increasing them for employees earning $200,000 or more. The chart illustrates this effect in the case of two workers earning $235,000 and $35,000 respectively.

Proposal

Employers taking advantage of the increased limit on includable compensation would be barred from cutting lower-paid workers' benefits below levels permitted under current law.

Result

Efforts to encourage employers to sponsor plans would not have the unintended effect of reducing some lower-paid workers' benefits. Nobody would get less than they do now.

Approach

Retain the current-law compensation limit solely for purposes of coverage and nondiscrimination standards (including safe harbors). Plans would be free to use the new, higher limit when calculating benefits, but would have to measure higher-paid employees' benefits relative to the lower compensation limit for purposes of these standards. This essentially would have the effect of maintaining the current floor on lower-paid workers' benefits.

(Requires legislation)

4. Provide Shorter-Service Workers with Vested Rights to their Benefits

Current law

Employer-paid benefits generally must be fully vested after 5 years, or after 7 years if phased in.

Effects

Short-service covered workers often forfeit their benefits when leaving their jobs. Lower-paid workers tend to have shorter service, and are therefore more likely to forfeit benefits.

Currently, nearly all defined benefit plans require covered workers to have at least 5 years of service before earning a vested right to their benefits. Defined contribution plans' service requirements for vesting are more mixed and often more favorable, but many do require 5 years of service.[1]

Proposal

Employers taking advantage of newly expanded pension tax incentives would have to provide shorter-service covered workers with vested rights to their benefits. (Note: The Administration has separately proposed faster vesting standards for 401(k) employer matching contributions.)

Result

Fewer lower-paid workers would forfeit benefits when leaving their jobs.

Approach

Plans would be treated as top heavy for purposes of vesting. This means that benefits would have to vest after 3 years, or after 6 years if phased in.

(Requires legislation)

B. Patch Cracks in Benefit Fairness Standards for All Plans

Current law balances pension tax incentives with minimum standards intended to ensure that benefits reach a broad cross section of retired workers. These standards, while largely successful, are uneven. Complex nondiscrimination rules leave room for plan designs that concentrate benefits among high-paid workers. Benefit allocations between high- and lower-paid workers are judged without regard to whether benefits will be forfeited. And forfeited benefits often are essentially transferred from short-service, lower-paid employees who leave their jobs to longer-service, high-paid employees.

A few well-crafted reforms could smooth out the unevenness, so that more rank-and-file workers are assured a meaningful benefit under their employers' plans. **These reforms would apply to all plans.**

Options include:

1. Narrow the disparity between high- and lower-paid workers' benefits by tightening

[1] U.S. Bureau of Labor Statistics.

applicable restrictions.

2. Ensure fair accounting of benefit disparities by barring employers from "balancing" benefits that high-paid workers keep against those lower-paid workers forfeit.
3. Stem the flow of forfeited benefits from lower- to high-paid workers' accounts.

1. Narrow Benefit Disparity

Current law

Current law includes "nondiscrimination" provisions that restrict disparities between high- and lower-paid workers' benefit accruals. Current Treasury regulations permit employers to comply with these requirements through a safe harbor or a general nondiscrimination test. Under the general test, employers subdivide their covered employees, grouping selected high- and lower-paid workers. Disparity is then restricted only within these groups and not across them.

Effects

In some cases, plans using the general test can provide little or even no benefits to some covered employees. For example, plans may be able to use "pure excess" designs, in which no benefits are credited for pay below a certain threshold. This type of plan design was once a common means of "integrating" pensions with Social Security. (Social Security generally provides proportionately higher benefits to lower-paid workers). The Tax Reform Act of 1986 created a safe harbor for certain integration practices, known as the "permitted disparity" safe harbor. The safe harbor does not permit pure excess plans. Nonetheless, some plans are able to sustain pure excess designs under the general test.

In 1995, more than one-half of workers covered by defined benefit plans were in plans that provided proportionately lower benefits to lower-paid workers in order to integrate pension benefits with Social Security.[2]

Proposal

Narrow the disparity between high- and lower-paid workers' benefits by tightening applicable restrictions. In particular, either tighten or prohibit use of the general nondiscrimination test.

Result

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[2]U.S. Bureau of Labor Statistics.

A larger proportion of covered rank-and-file workers would accrue meaningful benefits. The disparity between high-and lower-paid workers' benefits would shrink.
Alternative approaches

A. Plans could not demonstrate compliance by means of the general nondiscrimination test, but instead would be required to utilize one of the existing nondiscrimination safe harbors. The nondiscrimination safe harbors generally restrict benefit disparity among all covered employees.

B. Plans using the general nondiscrimination test would also have to satisfy a plan-wide restriction on disparity between high- and lower-paid workers' benefits. The ratio of benefits to pay for the lower-paid worker with the lowest ratio would have to be at least 75 percent of the ratio of benefits to pay for the high-paid worker with the highest ratio.

C. Plans using the general nondiscrimination test must demonstrate that each group satisfies the coverage rules. For this purpose, plans would substitute 90 percent for 70 percent when calculating the ratio and average benefit percentages. The minimum ratio percentage for those electing to cover a certain class of workers would range from 40 percent to 80 percent.

D. Plans using the general test would have to comply with the permitted disparity safe harbor.

(Could be done by Treasury regulation)

2. Fairly Measure Benefit Disparity

Current Law

When comparing high- and lower-paid workers' benefits for purposes of coverage and nondiscrimination standards, non-vested benefits are generally counted in the same way as vested benefits.

Effects

A plan which appears to benefit high-and lower-paid workers evenly generally will in fact benefit them unevenly, since lower-paid workers disproportionately fail to vest.

This effect can be amplified if a plan provides for "front-loaded" accumulation of benefits prior to vesting. For example, if a plan with 5-year cliff vesting provides for a minimum benefit equal to the benefit associated with 5 years of service, employees with very short service will appear to accumulate benefits at a very high rate, but may not actually receive any benefits.

Proposal

Ensure fair accounting of benefit disparities by barring employers from "balancing" benefits that high-paid workers keep against those lower-paid workers forfeit. That is, restrict how non-vested benefits may be counted for purposes of coverage and nondiscrimination standards.

Result

Employers would have an increased incentive to ensure that lower-paid workers keep rather than forfeit their pension benefits. Employers might liberalize their plans vesting provisions, make efforts to retain lower-paid employees, or take other steps to increase actual benefit payouts to lower-paid workers. The disparity between benefits actually received by high- and lower-paid workers would narrow.

Alternative approaches

A. Plans would count only vested benefits for purposes of coverage and nondiscrimination standards.

B. Plans could count non-vested benefits only to the extent of average accruals through the date of full vesting.

(Could be done by Treasury regulation?)

3. Transfer Fewer Benefits from Lower- to High-Paid Workers

Current law

Employers may allocate certain forfeited defined contribution plan benefits to the remaining participants' accounts.

Effects

Forfeitures are often allocated in proportion to account balances, and as such accrue disproportionately to high-paid workers. Consider covered workers nearing retirement whose primary pension plans is a defined contribution plan. If these workers are ranked by pay, the worker in the middle of the top half (at the "75th percentile") earns just slightly more than twice as much as the worker in the middle of the bottom half (at the "25th percentile). In contrast, if the same workers are ranked by account balances, the worker in the middle of the top half has an account balance nearly 10 times as large as the worker in the middle of the bottom half.

In addition, because lower-paid workers are less likely to vest, forfeitures often have the effect of transferring funds from lower- to high-paid workers' accounts.

Proposal

Plans allocating DC plan forfeitures to participants' accounts would be required to allocate them proportionately to compensation or more equally (e.g., flat per-participant allocations would be permissible). Allocated forfeitures would be fully and immediately vested.

Result

More benefits forfeited by lower-paid workers would to accrue to, and ultimately be paid out to, other lower-paid workers rather than to the high-paid.

(Requires legislation)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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CREATION DATE/TIME: 4-OCT-1999 09:37:16.00

SUBJECT: RE: Pensions working group

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TEXT:
During Thursday's cash balance discussion, we referenced an alternative to the Harkin bill that appears to hold some promise. Attached is the document

describing this alternative which was distributed by Brian Graff of ASPA
last week to several in the pensions working group.

-----Original Message-----
From: Gay_L._Joshlyn@opd.eop.gov [mailto:Gay_L._Joshlyn@opd.eop.gov]
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donna.shackleford@do.treas.gov; jane.molloy@mail.doc.gov
Subject: Re: Pensions working group

This meeting is today at 3:00 pm in OEOB Room 248. If you called or
emailed me yesterday with clearance info, please call me back today to
confirm that I have your info. This is to ensure that you don't get stuck
at the gate.

Thanks.

Gay L. Joshlyn
09/29/99 11:44:10 AM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP@EOP
cc: See the distribution list at the bottom of this message
bcc: Records Management@EOP

Subject: Re: Pensions working group (Document link not converted)

This meeting has been set for tomorrow, September 30, at 3:00 pm in OEOB Room 472. I will clear in everyone on Sonyia's old clearance list. If you are not sure if you are on that list or if you have had problems getting into the building, please send me your dob and ssn. My phone number is 456-2801.

Thanks.

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
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Message Copied
To:____

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jane.molloy@mail.doc.gov

Information in the headers for this message suggest that it
may be spoofed and that its authenticity should be verified.
- CBAlt1.doc=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D34]ARMS28776567R.236 to ASCII,
The following is a HEX DUMP:

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

Draft 9-28-99

Protect Participants Subject to a Cash Balance Plan Conversion While Preserving and Enhancing Defined Benefit Plan Coverage

An Alternative Proposal

Background

As reported in the media, a number of large companies have recently converted their traditional defined benefit retirement plans to cash balance retirement plans. A traditional defined benefit plan typically accrues benefits under a formula based on compensation and years of service (or a flat dollar amount and years of service, in the case of a collectively bargained plan). The benefit in a traditional defined benefit plan is defined in terms of an annual annuity at retirement. A cash balance plan generally accrues benefits under a formula based on compensation (or a flat dollar amount, in the case of some collectively bargained plans) and interest (or investment-earnings related) credits on top of these amounts. The benefit in a cash balance plan is defined in terms of an accumulation account maintained for the participant. Cash balance plans are nonetheless considered defined benefit plans due to several common characteristics. Unlike defined contribution plans such as 401(k) plans, they are funded entirely with employer contributions, the employer bears the risk of any investment losses suffered by the pension fund, and the benefits are guaranteed by the Pension Benefit Guaranty Corporation.

Under the law, employers are not required to adopt retirement plans for their employees; they are adopted on a voluntary basis. Consistent with this voluntary system, employers are free to prospectively reduce the benefits, freeze the benefits, or even terminate the retirement plan. However, employers may not reduce the amount of any retirement benefits previously accrued. Employees with many years of service under a traditional defined benefit plan may nonetheless experience a substantial reduction in future benefit accruals as the result of a conversion to a cash balance plan. In fact, in some cases certain longer-service employees may not accrue any benefits for several years until the benefits accumulated under the new cash balance plan exceed the present value of the accrued benefit under the old traditional defined benefit plan.

The AWearaway@ Problem

When longer-service employees, in the context of cash balance plan conversions, are effectively frozen out of future benefit accruals, it is often referred to as the Awearaway@ problem. Two factors can contribute to the Awearaway@ problem. The first occurs when an employer establishes employees= initial account balances under the cash balance plan at amounts less than the present value of the employees= accrued benefit under the old plan. This is permitted because if an employee terminates, the employer still must provide benefits at least equal to the benefits accrued under the old plan. In effect, no new benefits accrue until the difference between the present value of the accrued benefit under the old plan and the accrued benefit under the new cash balance plan is Aworn away@ by additional accumulations under the cash balance plan.

Even if employees= opening account balances under the cash balance plan are equal to the present value of the accrued benefit under the old plan, the Awearaway@ problem can still occur due to interest rate fluctuations after the date of conversion. This is because under current law the interest rate used to calculate the present value of the accrued benefit (i.e., lump sum value) under the old plan does not necessarily equal the interest rate used to credit additional amounts under the new cash balance plan. In fact, current law requires that a lump sum distribution be calculated using the interest rate on 30-year Treasury bonds regardless of the rate used for interest-related credits under the cash balance plan. This interest rate disparity can significantly change the value of a lump sum distribution. Consequently, the present value of the accrued benefit under the old plan may still exceed the new plan benefit for some time even though they started at the same amount.

The AWhipsaw@ Problem

Even if the Awearaway@ problem is addressed, participants may receive less than they expect from a cash balance plan because of the Awhipsaw@ problem. The Awhipsaw@ problem occurs because the current-law rules for calculating lump sum distributions are not consistent with the way benefits are provided under a cash balance plan. When calculating a lump sum value in a cash balance plan, the law requires that an employee=s accumulation account be projected forward to normal retirement age using the rate used for interest-related credits under the plan and then discounted back to a present value lump sum using the 30-year Treasury bond rate. If the rate used for interest-related credits under the plan is less than the 30-year Treasury bond rate, the employee=s lump sum distribution of benefits accrued under the cash balance plan can be less than his or her accumulation account. The effect of this interest rate disparity has naturally led to a great deal of uncertainty and confusion among employees and employers.

Proposed Legislation

Legislation has been introduced in Congress attempting to address concerns about longer-service employees not accruing any new benefits for several years as a result of a cash balance plan conversion. Senator Harkin (S. 1300) and Representative Hinchey (H.R. 2759) have introduced legislation providing that an amendment to a defined benefit plan may never cause a participant=s accrued benefit to be less than the accrued benefit on the effective date of the amendment (including any early retirement subsidy) plus any post-amendment accruals. This requirement is sometimes referred to as an AA plus B@ formula, where AA@ represents the accrued benefit under the old plan as of the date of the amendment and AB@ are the prospective accruals under the new plan. In other words, the cash balance plan is prohibited from wearing away the old plan benefit by starting with an accumulation account balance which is less the present value of the accrued benefit under the old plan. Instead, the accrued benefit under the old plan must always be a component of the participant=s benefit under the new cash balance plan.[i]

The bill introduced by Rep. Hinchey would also require, in the case of any amendment to a defined benefit plan reducing future benefit accruals, that employees be given the choice to stay under the old benefit formula. This would in effect prevent employers from reducing future benefits under a defined benefit plan without the permission of employees. Such a requirement would significantly change the nature of the current-law voluntary retirement plan system.

Concerns have been raised about this legislation for two reasons. First, the bills would not entirely prevent the possibility of longer-service employees not accruing any new benefits for several years in a cash balance plan conversion. This is because, although they address the portion of the Awearaway@problem resulting from a disparity between the present value of the accrued benefit under the old plan and the opening balance in the accumulation account, they do not address @wearaway@ due to interest rate fluctuations occurring after the date of conversion. Second, concerns have been raised that the bills would discourage the establishment and maintenance of defined benefit plans because they apply to all amendments to defined benefit plans (other than plans with less than 100 participants), including amendments to a traditional defined benefit plan that have nothing to do with a conversion to a cash balance plan.

If an employee is covered by a defined benefit plan, the retirement benefits provided under the plan can be a significant source of retirement income. Defined benefit plans are particularly effective in delivering retirement benefits to low-to-moderate income workers because defined benefit plans are funded with employer contributions. By contrast, low-to-moderate income workers may not be in an economic position to save part of their salary into a 401(k) plan in amounts necessary to produce a sufficient retirement income. Further, unlike a 401(k) plan, in a cash balance plan participant=s benefits are insulated from investment losses. Consequently, there are strong policy reasons to encourage the establishment and maintenance of defined benefit plans. Unfortunately, defined benefit plan coverage has been declining. According to the Department of Labor, the number of defined benefit plans declined from 175,000 to 84,000 between 1983 to 1993. Government regulatory requirements have been a significant contributing factor to this decline in defined benefit coverage.

As previously stated, employers voluntarily adopt defined benefit plans. Concerns have been raised that if new legislation effectively prevents employers= from modifying benefits under a traditional defined benefit plan for business or financial reasons (and not involving a conversion to a cash balance plan), employers will be unlikely to adopt new defined benefit plans and those with plans will be more likely to terminate them. It is thus desirable to address the concerns of employees faced with a conversion to a cash balance plan without negatively impacting traditional defined benefit plans. As stated in a recent Washington Post editorial published this past Labor Day, Aefforts to protect workers with new regulation are fraught with danger. . . If new regulation pushes more companies [to not offer a retirement plan], the retirement security of American workers and the national savings rate will be the losers.@

Alternative Proposal

This alternative proposal would ensure that cash balance conversions could never cause any employees to suffer through a period of years where they do not earn any accruals in the account balance. Further, the proposal would ensure that a lump sum distribution of benefits earned under a cash balance plan to an employee would always equal the amount in such employee=s accumulation account. Finally, this would be accomplished without any negative impact on traditional defined benefit plans or their participants.

Protecting Participants from Cash Balance Conversions

The alternative proposal begins by building on the legislation already introduced. Thus, like those bills, the proposal would address the Awearaway@ problem due to opening accumulation accounts set at amounts less than the present value of the accrued benefit under the old plan. Under the proposal, in the case of a conversion to a cash balance plan (defined below), a participant=s accrued benefit under the cash balance plan can never be less than the accrued benefit under the old plan plus any post amendment accruals earned under the new cash balance plan benefit formula. In other words, cash balance plan conversions would have to be applied using an AA plus B@ benefit formula.

The alternative proposal will also prevent the Awearaway@ problem resulting from interest rate fluctuations after the date of conversion. This would be accomplished by fixing the interest rate (and mortality assumptions) used for calculating the present value of a participant=s accrued benefit under the old plan on the effective date of conversion to a cash balance plan. In other words, the present value of a participant=s benefit under the old plan (i.e., the AA@ component of the participant=s entire plan benefit) would always be calculated using the interest rate (and mortality assumptions) that existed on the date the plan was converted to a cash balance plan.[ii] Consequently, the old plan benefit would never be subject to interest rate fluctuations that could prevent the longer-service participant from earning new benefit accruals for several years. Under this proposal, participants would also still be entitled to any early retirement subsidies with respect to the old plan benefit to the extent still provided for under the plan.[1]

Ensuring Participants Receive the Full Amount of Their Accumulation Account under the Cash Balance Plan

As discussed earlier, even if the lump sum interest rate factor is addressed with respect to the accrued benefit under the old plan, differences between the rate used for computing interest-related credits under the cash balance plan and the interest rate

[1] To the extent legislation requiring enhanced disclosure regarding cash balance plan conversions passes, this proposal will make such disclosures easier for participants to understand and more reliable since the present value of the old plan benefit will now only be a function of the participant=s age and will not be subject to the uncertainties of unpredictable interest rate fluctuations.

required by law to be used for calculating a lump sum distribution can cause a participant to receive a lump sum distribution which is less than their accumulation account.[2] This creates uncertainty and confusion for participants who have an expectation that the accumulation account actually represents what they would receive as a distribution. This problem can also cause significant human resource problems for employers as well as uncertainty regarding plan funding requirements. Consequently, the proposal would provide that in the case of any lump sum distribution of accrued benefits earned under a cash balance plan, such lump sum distribution shall always equal the amount in a participant=s accumulation account on the date of distribution. In other words, under the AA plus B@ formula, the AB@ piece will always equal a participant=s accumulation account if a lump sum distribution is made.[3]

Definition of Cash Balance Plan

In order to ensure the proposal does not impact traditional defined benefit plans, it will only apply to cash balance plans. Accordingly, a definition of cash balance plan is needed. The two unique characteristics of cash balance plans are that benefits accrue based on interest (or investment-earnings related) credits and the benefits are expressed in terms of an accumulation account. Thus, the proposal would define a cash balance plan as any defined benefit plan under which benefits accrue under a benefit formula which is at least in part based on interest or investment-related credits and where the accrued benefit earned under such formula is expressed in terms of an accumulation account. In order to prevent any abuse by employers attempting to avoid the participant protections provided by this proposal, Treasury would be directed to issue regulations ensuring all forms of cash balance plans (or just the portion of plans which have a cash balance formula) are adequately covered by this definition. Such regulations would have to be issued within 90 days of the date of enactment.

Effective Date

In general the provisions in this proposal would be effective for plan years beginning after December 31, 1999. After such effective date, the provisions of this proposal would apply to any amendment to a defined benefit plan converting it to a cash balance plan as well as any lump sum distribution of accrued benefits under a cash balance plan.

A special effective date would also apply the provisions in this proposal to recent conversions to cash balance plans. In the case of any amendment to a defined benefit plan converting it to a cash balance plan which became effective after June 30, 1999, the provisions of this proposal would have to be followed effective as of the first day of the

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[2] Differences between accumulation account balances and lump sum distributions have actually led to at least two lawsuits litigated in federal courts in Vermont and Georgia. In both cases the plaintiff claimed the distribution was less than the amount owed in the plan and in both cases the Federal District Court ruled in favor of the employer. Both cases are being appealed.

[3] This provision would apply to accrued benefits under any cash balance plan even if not converted from a traditional defined benefit plan.

plan year beginning after December 31, 1999. In other words, cash balance plan conversions which became effective after June 30, 1999, would have to be amended to comply with the requirements of this proposal beginning with the first day of the 2000 plan year.

[i] In the context of a cash balance plan conversion, utilizing an AA plus B@ formula means that the opening balance of a participant=s accumulation account will effectively be zero. This is because at any point in time a participant=s benefit is comprised of their benefit under the Aold@ plan (the AA@ piece) and benefits earned under the Anew@ cash balance plan (the AB@ piece).

[ii] To the extent the old plan uses interest rates (and mortality assumptions) that are more favorable to participants than those required by law on the date of conversion, the more favorable interest rates (and mortality assumptions) would have to be fixed for this purpose.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 1-FEB-2000 16:38:11.00

SUBJECT: Corky's Memo

TO: Lowell J. Taylor (CN=Lowell J. Taylor/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
---------------------- Forwarded by Michael J. Brien/CEA/EOP on 02/01/2000
04:37 PM ---------------------------

Audrey Choi
07/16/99 02:42:36 PM
Record Type: Record

To: Michael J. Brien/CEA/EOP@EOP
cc:
Subject: here it is

FROM: Cordelia Reimers

RE: Departure Memo

I. Currently active issues

A. SS) anti-poverty options. Bob Schoeni and I worked with a small working group (WG) headed by Jeff Liebman (then at NEC; went back to Harvard June 1) on ways to reduce elderly poverty, particularly among widows. Other key people: Diana Meredith & Jack Smalligan at OMB; Jane Ross, David Weaver, Alexa Hendley, Steve Goss, Eli Donkar, & others at SSA. Now this issue has moved to the overall SS Technical WG -- Doug Elmendorf of CEA and David Wilcox of Treasury are key there. See latest options memo dated 6/23/99 in folder in filing cabinet. In the fall I wrote a memo analyzing the labor supply effects of the NCRP minimum benefit proposal (see folder in filing cabinet).

B. SS -- elimination of earnings test. Other than to brief Janet a couple of times, I have not been actively involved in this one. It has been discussed by the overall SS Tech WG -- ask Doug Elmendorf (CEA) or David Wilcox (Treasury).

C. Pensions) Admin,s proposed legislation requiring disclosure for conversions to cash balance plans. See folder in filing cabinet for latest docs received via email. Sarah Rosen-Wartell (NEC) runs the Pensions WG; contact her to get briefed on where things stand re pension issues. Mark Iwry (Benefits Tax Counsel at Treasury), Stuart Sirkin (PBGC), Leslie Kramerich (Deputy Asst Secy of Labor for Pension and Welfare Benefits Admin) are the key agency reps. Dave Gustafson (Chief Actuary at PBGC) is good at explaining how CB and other DB plans work. Don Wellington at Treasury is good on 401(k) plans. DOL and Treasury worries more about protecting workers; whereas PBGC worries more about not burdening employers lest they abandon their DB plans (which are PBGC,s sole reason for existence, after all). We sided w/ Treasury and DOL in developing the consensus proposal on this issue, and we supported the final proposal.

D. OSHA) proposed ergonomics rule) a brand new issue. I have not been involved in OSHA issues, other than to comment on an occasional Legislative Referral Memorandum (LRM). See email from Stuart Shapiro of OMB dated 6/29/99 (on my desk)) the first time I heard about this. Then Stuart left a message for me on Friday (7/9/99), saying that he has a very thick stack of paper containing the proposed rule that he wants to drop off with CEA. I sent him an email to contact Mike. Consider Mike,s and Robin,s interest/ expertise and discuss w/ Janet how much effort to put into this, and OSHA generally, vs the other demands on their time. The question is, can CEA make a difference w/ a reasonable investment of time, and w/o jeopardizing higher-priority items?

E. New Markets Initiative) i.e., getting private investment into &untapped8 retail and labor markets (aka poor urban and rural areas). HUD (Susan Wachter), Treasury, and SBA have done most of the work on this. Bert Huang covered this until June; then I went to a couple of meetings and helped Cliff Kellogg (Treasury) and Carl Haacke (NEC) with definitions of &inner city8 census tracts used in the academic lit and identifying sources of data. We felt CEA couldn,t contribute much beyond this, since the research lit on the effectiveness of policy tools in stimulating investment in depressed areas is not encouraging. If they want a survey of the lit, some of the papers are in the filing cabinet. Check w/ Cliff Kellogg if Mike wants to get involved; or he may contact him, now that the Presidential tour of &new market8 areas this past week is over.

II. Other issues (dormant, at least for the time being)

A. Expanding pension coverage.
In the fall the Pensions WG prepared a package of incremental pension reforms to increase portability, security, and coverage, which were introduced as bills early in 1999 (see folder on Pension Legis in filing cabinet). We supported these.

Before the cash balance plan disclosure legislation took over, this spring the Pensions WG was considering ways to expand pension coverage for lower-paid workers. PBGC and DOL produced agency position papers (see folder in filing cabinet); so far Treasury hasn,t. I am not quite sure whether this is because they couldn,t agree internally or because they wanted to stall, hoping the issue of raising limits (see below) would blow over. Sarah Rosen (NEC) may resume pressuring Treasury for a paper now that the CB disclosure legislation has been introduced.

The Portman-Cardin pension bill, to which the Admin wants an alternative, would raise the salary, contribution, and benefit limits used in calculating pensions. The Pensions WG generally seems ready to give in on this, if they could use it to expand coverage for lower-paid workers. PBGC,s paper says that raising the limits is necessary to preserve/expand DB plans. Their theory is that top managers now have no personal stake in their firm,s pension plan for lower-paid workers because of the limits, but would maintain/adopt DB plans for lower-paid workers if the limits were raised so that they could get larger pensions from the same tax-qualified plan as the workers. PBGC,s overriding concern seems to be to preserve/expand DB plans at any price.

DOL,s paper goes along with raising the limits, but they want to add requirements that protect/extend pension coverage and benefits for lower-paid workers in return for higher limits. Apparently they are influenced by organized labor,s support of DB plans.

Becky and I opposed raising the limits, because it would amount to a large tax cut for extremely high-income employees, and because we doubt that it would have much effect on firms, pension coverage for lower-income workers. We are not as concerned as PBGC and DOL are about preserving DB plans. The economics lit on the shift from DB to DC plans suggests that it has been driven by changes in the labor market that are stronger than managers, personal stake in a DB plan, and that it may benefit workers on balance. We believe that DOL is not asking for enough benefits for lower-income workers to offset the cost of the lost tax revenue from high-income employees.

Although Treasury never produced a paper, we have some potential allies there. Mark Iwry agreed with me that a costly tax expenditure on very high-income employees is a bad idea. Apparently all three agencies have been worn down by pressure from employers to raise the limits, and believe that an increase in the limits is inevitable (&if you can,t lick 'em, join 'em8). I had planned to prepare a CEA memo outlining the case against raising the limits, but postponed it when the Pensions WG turned its attention to the CB disclosure issue, and then ran out of time. If you want to pick up on this, you could call me to discuss some of my ideas.

B. Women, Families, and Children

1. Paid parental leave. Nicole Rabner (DPC) is the main contact; also see folder in filing cabinet. There being no room in the budget to pay for parental leave, the main issue this year was whether DOL should allow states to use Unemployment Insurance (UI) funds to pay for parental leave if they wish to do so. Four states, including MA and VT, have had such bills in their legislature, and there was much pressure from Hill Dems (Senators Kennedy, Leahy et al), White House, and women,s groups to allow this. DOL/UI Service (headed by Grace Kilbane) opposed it, arguing that UI trust fund surpluses should be preserved for a recession, and that UI has always been restricted to persons who are laid off by their employer and are immediately available for work. UIS argued that use for parental

leave would compromise the integrity of the UI system and open the door to other diversions of UI funds. DPC argued that there were other exceptions to the general UI rules, that states should be allowed to experiment if they wished, and that in any case, states were unlikely actually to enact such legislation in the near future.

We argued that states should only be allowed to use UI for parental leave if the additional cost is covered by an additional tax that is not experience-rated, so as not to jeopardize the solvency of the UI trust funds and not to give employers an incentive to discriminate against women of child-bearing age. Gene Sperling supported this view at the Principals meeting, having been briefed by Becky Blank. But DOL cannot make detailed UI rules for states; it can only set broad rules and propose model legislation. An options memo was prepared for the President, who decided to order DOL to prepare regs that would allow states to use UI funds for new-baby leave. DOL is in the process of developing these regs and writing model legislation, so this issue will come up again in 1999-2000.

2. Equal pay data collection. Tom Freedman and Mary Smith (DPC) are the main contacts; also see folders in filing cabinet. The Admin opposed Senator Harkin,s &comparable worth8 bill, but helped Senator Daschle draft legislation to provide for better enforcement of the Equal Pay Act. EEOC (headed by Ida Castro) was already (and still is) in the process of revising the EEO-1 form to collect data from employers on the gender and race/ethnic composition of 15 occupational categories, and wants to collect pay information on the same form. DOL/OFCCP (headed by Bernie Anderson, I believe) is also working on methods for collecting pay data earlier in the audit process for Federal contractors. Harry Holzer (Chief Economist at DOL) knows about this; Ed Montgomery (Deputy Secy) does, too.

Our position was that the costs outweigh the benefits of this effort. The quality of the data would be suspect because employers have little incentive to report pay data accurately if it might subject them to litigation. The burden on employers would be high because they do not normally keep pay records in this way. This pay data would provide little useful information about pay discrimination, because average pay could differ within 15 broad occupational categories because of gender or racial/ethnic diffs in education, experience, and specific jobs. We suggested that EEOC could use existing Census and other data on pay by occupation, gender, race/ethnicity, education, age, and narrow industry and geographic location to help EEOC target investigations of potential Equal Pay Act violations. As I recall, Josh Gotbaum of OMB was on our side, as was Bernie Anderson of DOL.

In the end, politics won and DPC proposed draft legislation to Sen Daschle providing that the EEOC be directed to develop methods for collecting data on pay from employers. The EEOC is working on its proposed EEO-1 revision, and DOL is working on its OFCCP audit requirements. So this issue will come up again!

3. Gender pay gap.
At the request of Tom Freedman and Mary Smith (DPC), we produced estimates of the lifetime gender pay gap by cohort, both &raw8 and corrected for gender diffs in education, experience, industry, and occupation.
At their request we also wrote a memo and an op-ed signed by Janet

critiquing the AEI book, Women,s Figures. Jennie Luray of the White House Women,s Office says they are still trying to place the op-ed.
See WEB articles on these topics, and folders in filing cabinet.

4. Child care. Nicole Rabner (DPC) heads this WG; Nora Gordon represented CEA at the meetings in the fall. This spring they have held a weekly conference call at 5:00 on Thursday afternoons to discuss legislative strategy and monitor developments on the Hill. Not much new policy development or role for CEA this year.

5. &Families Report.8 Completed CEA report, Families and the Labor Market, 1969-1996: Analyzing the Time Crunch -- copies are in CEA main office & on CEA web page; master copy is in folder in filing cabinet and in h:\families\famfinal.wpd file on CEA network.
C. Education and Training

1. Minorities in higher education. Ceci Rouse and Bob Shireman, who were at NEC last fall but have since left, ran the Ed & Training WG. We worked on a number of Dept of Ed budget proposals to improve degree attainment of minorities in higher education; e.g., modifying financial aid, student support services, articulation between 2-year and 4-year colleges (see folder in filing cabinet). This WG has been inactive this spring. I think Brian Kennedy of NEC is supposed to cover ed & training issues. At the Dept of Ed, David Longanecker took the lead, David Bergeron knows the data, Norris Dickard also knows a lot.

2. Adult basic skills. In the fall Ceci Rouse ,s now-inactive E&T WG also worked on Dept of Ed budget proposals to improve adult basic skills ed. One idea was to provide employer tax credits for workplace training in literacy and other basic skills. Trish McNeil, the Asst Secy for Adult Ed, was the Dept of Ed ,s leader on this.

One of the basic questions in the ed & training area is whether the Federal govt should use tax credits or competitive grants to encourage desired activities. Tax credits make aid widely available, but it may be hard to monitor them and to control costs; grants limit the number who get aid. Considerations of how grants vs tax credits will be scored by OMB for budget purposes can influence these decisions. See Tom Kane ,s discussion of this wrt financial aid for college students, on p. 7 of his paper in the folder on financial aid for higher ed in filing cabinet.

D. Labor Market

1. Welfare-to-Work & Work Opportunity Tax Credits
See 6/29/99 email from Len Burman (Treasury) re riders to min wage bill (in file drawer -- I did not have any info so did not respond).

During budget prep in Dec/Jan, there was an OMB proposal to charge user fees for employers applying for these tax credits. We took the position that this would undermine the purpose of the credits; i.e., to encourage employers to hire these people when they otherwise don ,t want to. Raising the cost discourages them at the margin and sends a mixed message. We won.

2. Unemployment Insurance reform.
A package of reforms were proposed by DOL/UIS and discussed/modified in the fall by a group headed by John Orszag, then at NEC, now at Commerce. In the end, they did not make it into the budget proposal. Probably they will try again for FY01 budget. Grace Kilbane heads the UI Service in DOL. Carole Kitti at OMB is good at explaining UI issues.

E. Health & SS. In the fall Bob Schoeni and I worked with a WG headed by Mark McClellan of Treasury on estimating the number of workers in poor health or in strenuous/stressful jobs who would be adversely affected by raising the NRA. We also collected data on job accommodation by employers (see folders in filing cabinet).

III. Guide to files

A. Filing cabinets.
Agency documents and memos circulated by the WGs, CEA memos, outside research papers, and most data tables and other material I used this year are in labeled folders in the filing cabinets, organized by topic as indicated by labels on the file drawers.

B. Bookshelves near window (a partial inventory).
Top shelf.
References such as ERPs, Stata manuals, 1998 Stat Abstract, Green Book, EBRI Handbook.
Next few shelves.
Statistical reports -- income & poverty stats (Census), pension stats (PWBA), minority- & women-owned businesses (SBA).
Papers from conferences on time use, SSI, American Community Survey, etc.
Legislative Referral Memorandums (LRMs) on miscellaneous topics (e.g., testimony by OSHA, Census Bureau, etc). LRMs on pensions and other issues I worked on are in the filing cabinets with the other WG materials.
Bottom 2 shelves.
Files left by predecessors from earlier years, which I never had time to sort out.

C. Glass-fronted bookcase.
CEA reports on EITC, child care, chart book on racial diffs.
Economic Indicators, DOL press releases.
1998-99 WEBs.
SSA 1998 Annual Statistical Supplement, 1994-95(?) Advisory Council Report.
Old issues of SS Bulletin and Employment & Earnings.
Dictionary, telephone directories.

D. Bookshelves near door.
Upper shelves.
Material from previous years, including reports on health, Medicare, long term care, and Unemployment Insurance.
Mail from outside organizations, addressed to predecessors, which I never had time to open.

Files left by predecessors from earlier years, which I never had time to sort out.
Bottom shelves.
Supplies.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jason S. Seligman (CN=Jason S. Seligman/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 1-DEC-2000 18:25:33.00

SUBJECT: CEA's ERP and PBGC

TO: edward.demarco@do.treas.gov (edward.demarco@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TEXT:
Hi Ed-

we talked friday- here's the latest draft of outr stuff. I spoke with our in house editor just now, and because the Chairman has to read whatever I add from our discussion- We really need to try to close this up Monday-

Thank you for the comment, I think that if we have the opportunity to hammer something out on Monday it will add value to the discussion as it now stands.

Jason
202.395.7352 ==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert NARMS202:[ATTACH.D2]ARMS22000Y451.001 to ASCII,
The following is a HEX DUMP:

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

Life after Debt

The year 2000 marked a turning point in Federal debt management, as the Treasury began actively buying back the public debt instead of being a net issuer of new debt. With the very real possibility that surpluses will now be the norm, the Treasury will most likely continue to take in more cash than it disburses and the public debt will continue to shrink. Once the debt is eliminated, and this occurs fairly soon under current projections, a Federal asset will begin to accumulate. A sharp reduction in Federal debt and subsequent accumulation of a Federal asset raises at least three important issues. First, investors looking for an asset free of credit risk will no longer be able to count on an abundant supply of U.S. Treasury securities and Treasuries will no longer provide a benchmark for pricing more risky assets or assessing economic and financial market conditions[1]. Second, the Federal Reserve may have to change the mechanisms by which it conducts monetary policy if there is no longer an abundant supply of Treasury securities. Third, the accumulation of a Federal asset raises issues about what kinds of assets might be acquired and the best way to manage them.

Benchmark Issues

Because of their abundant supply and because they are backed by the full faith and credit of the U.S. government, Treasury securities have traditionally supplied investors with an asset that is highly liquid and free of default risk. Treasuries provide private investors with an interest-bearing hedge against risk and an asset that can readily be converted into cash. The Federal Reserve and many foreign central banks also hold Treasuries and use them in their official operations. By running surpluses instead of deficits, the Federal government will be shrinking rather than expanding the supply of this valued financial asset for the first time in recent history.

Treasury securities have an additional role to play in modern financial markets. As a safe and liquid asset, they have provided a benchmark for determining and assessing interest rates on other assets that are less liquid or less safe. For example, new corporate debt is typically marketed in terms of its yield relative to that of a particular Treasury issue (rather than at a specific price or yield), and the performance of corporate bonds is often assessed relative to that of Treasuries. Thus, changes in the pricing of the credit risk associated with other financial instruments (the spread between their yield and that of Treasuries) can be separated from changes in interest rates generally (as represented by changes in the yield on Treasuries).

Market participants also use Treasuries as part of a hedging strategy to protect against interest rate risk when taking positions in other fixed-income securities. For example, a securities dealer with a long position in mortgage-backed securities could simultaneously take a short position in Treasuries (by selling securities that the dealer has borrowed). An increase in interest rates generally would reduce the value of the mortgage-backed securities, but it would also reduce the cost of acquiring the Treasuries needed to pay back the loan. With such a hedge, the dealer would be exposed only to the specific risk associated with the mortgage-backed securities. This ability to hedge and separate specific credit risk from general interest rate risk has been important in the development of a sophisticated set of instruments for pricing and allocating risk that has allowed a dramatic expansion of financial markets both nationally and globally.

With the prospect of a shrinking public debt, Treasuries are likely to become less reliable as a benchmark, and financial markets may have to find a substitute. In fact, after the Treasury announced its plans for buying back Federal debt last year and financial markets began to believe that surpluses were likely to continue, the "swaps" market emerged as an alternative to a Treasury market that was already showing the effects of uncertainties about future supply conditions. A swap involves the exchange of a stream of variable interest rate payments, usually tied to the London Inter Bank Offer Rate (LIBOR) for a stream of fixed payments, for a fee. Swaps can be for durations ranging from a few months to many years. For example, one party to a swap may expect to receive a variable stream of payments tied to the LIBOR (and an implicit principal balance) over the next 5 years but would prefer the certainty of a fixed payment. The second party agrees to pay a fixed periodic amount in exchange for that variable stream of payments. The swap rate determined in the market is the amount of the fixed payment computed as a percent of the implicit principal. Because there is no underlying asset tied to the issuance of a particular entity (as is the case with Treasuries), the supply of swaps can be quite elastic, requiring only a willing party on each side.

Commented [E3]: we can be more specific

. Many financial intermediaries participate in the swaps market at present, allowing a fully articulated yield curve (that mimics the durations of the current Treasury Yield curve) and a vibrant market. The depth of the market is not encumbered by the issuance needs of any one entity but is instead tied to the value of increased certainty. In this environment Swaps, which by design deal explicitly with uncertainty, are capable of acting as a partial substitute for Treasuries as a benchmark. At present swap rates are occasionally subject to supply-driven distortions, however the notional size of the interest rate swap market is growing quickly, expanding by $4 trillion, or roughly 9 percent in the first half of this year and 22 percent in the year prior. Because swaps are not U.S. Treasury issues, they will not fully substitute for the Treasury instrument. They are however, highly tradable across parties as the houses that issue them take steps to insure exemplary credit ratings in order to maintain liquidity and thus market share.

Commented [E4]: July Humphry Hawkins Report from the Fed.

Commented [E5]: BIS estimate from their press release on the Global OTC derivatives growth.

Commented [E6]: Conversation with Tom Simpson Associate Director, Research and Statistics Fed BoG 452-3546
According to Tom, these companies create separate corporate entities to shield Swaps businesses from other market risks as well as providing outstanding collateral and care within the Swaps business.

The securities of large government-sponsored enterprises (GSEs) are an alternative to swaps as a substitute for the benchmark functions of Treasury securities. GSEs are privately owned companies that operate under Federal charters. They are not part of the Federal government and their securities are not federally guaranteed. Nevertheless, the debt securities issued by GSEs are perceived as being quite safe. Recently, the largest GSEs, Fannie Mae and Freddie Mac, have begun to structure and time their offerings in ways that might make them attractive as benchmarks. They have also made their securities more available and attractive to overseas investors. As will be discussed further in the next section, however, there are still some questions about the limitations of agency debt as a substitute for Treasuries.

Conducting Monetary Policy

While a large supply of Treasury securities is valuable to private financial markets, it is central to the mechanism currently used by the Federal Reserve to conduct monetary policy. In particular, the Fed sets a target for the federal funds rate (the rate at which banks make uncollateralized overnight loans to each other) and uses open market operations (purchases and sales of Treasury securities or equivalent actions) to keep the federal funds rate close to that target. In the short run, when the Fed want to tighten monetary conditions, it raises the target federal funds rate and sells securities, which reduces banks' reserves and hence their capacity to make loans. To ease monetary conditions, the Fed lowers its target federal funds rate and buys securities, injecting reserves into the system.

Over time, in a growing economy, the Fed tends to be a net purchaser of securities in order to accommodate the needs of a growing economy for more bank reserves and greater lending capacity. One implication of a shrinking public debt is that the Fed will come to own an increasing fraction of the outstanding debt. In fact, in order to help preserve the market for Treasuries, the Fed placed caps on the amount of individual Treasury issues it would purchase last July. While such caps help preserve a private market for Treasuries, they limit the Fed's ability to use Treasuries to conduct monetary policy. It is estimated that if the Fed provides sufficient reserves for the money supply to grow at 6 percent annually (about in line with nominal GDP), the Fed will bump up against its self-imposed caps on Treasury holdings as early as 2003—long before the supply of publicly traded Treasuries vanishes.

Recently, in part because the stock of Treasuries is no longer expanding, the Fed has come to rely more on "repurchase agreements," or "repos" as a means to increase and decrease reserves as a part of ongoing operations. One party to a repo transaction simultaneously sells a particular security to a counterparty and agrees to repurchase that security at a specified price at a later date, often the next day. The Fed can use such temporary sales to reduce reserves and tighten monetary conditions. The term "reverse repo" describes the other side of the same transaction. Such temporary purchases by the Fed inject reserves and ease monetary conditions. Typically the Fed uses Treasury securities as collateral when engaging in repos and reverse repos. These "short-term" transactions can extend for months, and vary the money supply substantially.

Commented [E7]: FRB bulletin Dec 1999, p797.

Commented [E8]: Maximum term was expanded to 60 days in 1998. Fed document on Monetary Policy – Chapter 2.

Commented [JG9]: Fleming, et al. (2000), p. 35.

While useful at present, repos do not offer a long-term answer for how to conduct monetary policy in the face of a rapidly shrinking supply of Treasuries. One possibility is to find an alternative asset for conducting open market operations. Another is to turn to a different mechanism for conducting monetary policy.

Alternative assets. Treasury securities are not the only possible asset for conducting monetary policy. Indeed, the Fed in the past has used other assets to conduct policy, including gold. Today, sovereign debt, corporate bonds, GSE debt, and even equities are all theoretical candidates to replace Treasuries. While these assets are feasible instruments for open market operations, none is as liquid as Treasury instruments. Insufficient liquidity can be a problem in those situation where the Fed needs to make substantial transactions quickly, such as in a financial liquidity crisis such as the October 1987 stock market crash. At present, the required supply of Treasuries is somewhat less than the total financial assets held by the Fed. This might suggest that the Fed could purchase other assets to expand liquidity while maintaining contingency strategies that rely on the Treasury market. Even should this be the case however, over time as the economy grows and the Fed's stock of Treasuries matures, both the percentage

Commented [E10]: Required for what—some estimated requirement for liquidity?

of Treasuries in the Fed's portfolio and the active market in Treasuries will shrink. This is part of the motivation at present for a change in Fed procedures affecting rapid changes in reserves.

Several observers have noted that any asset that the Fed decides to use in conducting monetary operations will enjoy increased demand, and hence enhanced liquidity. Increasing the liquidity of a security not issued by the Federal government in this way raises a number of concerns. First, the enhanced liquidity as a result of Fed purchases may be derived in part from an implicit expectation of Federal guarantee for the chosen instrument. This is problematic as such a "guarantee" would arise from the status of the instrument in monetary policy rather than from its underlying creditworthiness. Second, Fed participation in the market for a security may crowd out private participants. Third, in response to the increased demand for any specific security as a result of Fed participation, issuers may increase supplies beyond what is appropriate. Fourth, should economic or financial conditions require the Fed to increase or decrease reserves rapidly, any single asset being used to conduct monetary policy would see its supply change drastically and suffer a large asymmetric shock as compared to the economy as a whole. All of these concerns arise in the case of GSE debt issued by Fannie Mae and Freddie Mac, notwithstanding their efforts to increase the liquidity of their issues.

Commented [JG11]: [1] See Reinhart and Sack (2000) for one reference.

Another among a wide variety of possibilities to replace Treasuries in the conduct of monetary policy, if the Fed were granted the authorization to use them, would be newly created private securities. If the demand were there, for example, private institutions could construct very low-risk securities constructed from a pool of private debt securities. Such securities would be packaged in a way similar to mortgage-backed securities currently issued by GSE's, but would not be as liquidity constrained and would be better diversified against certain market risks. To package the new instrument, a financial institution could purchase a set of high-quality corporate bonds. It could then offer to sell a "triple-A-plus" bond, with regular interest payments and a fixed annual interest rate for the life of the bond. The institution would put up its equity capital and take on the default risk of the underlying corporate bonds. Although not completely risk-free, such triple-A-plus securities would entail limited credit risk and would be close substitutes for Treasury securities. To the extent that the market valued such an instrument, especially in the absence of a large supply of Treasuries, a liquid and transparent market could well develop.

Alternative monetary policy instruments. Open market operations are the main instrument for conducting monetary policy, but there are other, less widely used instruments that could be considered. These include use of the discount window, changes in reserve requirements, and even moral suasion.

[explain what discount window operations are] An increase in the use of discount window lending to banks would mark a return to the reserve management strategies used many decades ago. The special Y2K lending program of last year was a recent and significant modern use of the discount window to infuse liquidity into the banking system quickly and effectively. An advantage of using the discount window is that the Fed does not have to make choices about which securities to purchase in order to effect open market operations; instead it can focus on specifying what constitutes an acceptable form of collateral for loans. Nevertheless, questions remain about such an approach. Defining acceptable collateral is a significant decision. In addition, we have little experience with discount window operations in today's economy. The successful Y2K lending program was a coordinated and timed response to an anticipated event, while the ability to use discount window operations to affect overall credit availability is subject to uncertain linkages.

Besides open market operations and the discount window, the Fed can manage credit conditions by changing the amount of reserves a bank is required to hold against its deposits. In practice, however, reserve ratios have been adjusted infrequently. Moreover, innovations in the 1990s such as the use of retail sweeps [need to describe what sweeps are] have substantially enhanced banks' abilities to manage reserves and keep them as low as possible. On the one hand, these innovations mean that changes in reserve requirements should have an immediate impact on banks lending capacity since there is little slack to absorb required changes in reserves. On the other hand, these innovations signal that banks are more acutely aware of the cost of required reserves, and that they are likely to take all available steps to reduce the liability that any increase in the reserve ratio might represent. The potential for continued financial innovation might reduce the effectiveness of this instrument should the Board decide to more actively manage credit using this instrument. Finally the ability to expand credit with this instrument is constrained by the need for adequate reserve balances.

Finally, the Fed has some influence simply through its communications, or so-called moral suasion. The Fed communicates to markets through the announcements of the Federal Open Market Committee, speeches by members the Board of Governors, and to a lesser extent, the research and analysis of both financial and goods markets conducted in various publications, including the Federal Reserve Bulletin. Moral suasion is an important tool at present, as it increases the transparency of monetary policy by aligning market expectations of Fed actions to the opinion of the Chairman and Board of Governors. The most common modern use of this tool is the Federal Open Market Committee's press release, which along with announcing a target for the federal funds rate often includes an analysis of the economy and "bias" or predominant concern of the Board. Because meetings are scheduled and announced well in advance financial markets anticipate press releases, and look to them for guidance on Fed policy. Fed transparency will continue to be of value to markets regardless of the remaining makeup of monetary policy. However, at the end of the day, the effectiveness of moral suasion is a function of the effectiveness of the Fed's ability to tighten and relax credit conditions effectively.

Decisions about which, if any alternative asset might prove to be an acceptable substitute for Treasury securities in the conduct of open market operations or whether a different instrument entirely should be used for the conduct of monetary policy are complicated and require careful attention. The Federal Reserve is currently conducting a system-wide review of these questions in order to be prepared for a possible sharp reduction or elimination in the supply of Treasury securities.

Accumulating a Federal Asset

If current projections prove accurate, the Federal debt held by the public (which includes holdings by the Federal Reserve) will be eliminated in 2012. Subsequent surpluses will have to be invested and wise choices regarding initial investment and subsequent management will help ensure that the Federal government is prepared to meet the future obligations described earlier in this chapter. In fact, the Federal government could make such decisions before the debt held by the public is exhausted by purchasing alternative assets—either inside or outside the Social Security system—and issuing debt to finance those purchases. Such actions could preserve an active Treasury market even as the net public debt was paid down.

Whether the Federal government purchases assets sooner, in order to maintain the supply of Treasury securities outstanding, or later simply because it has no more debt to retire and is still running surpluses, it will have to decide what kinds of assets to acquire. Broadly speaking, the choices are: public fixed income securities, such as State and local government obligations; private fixed income securities, including GSE instruments; and equities. The experience of foreign and state governments may provide a useful perspective on these choices.

Public Fixed Income Securities. The Federal government could purchase State and local bonds. Because the interest earned on these securities is exempt from Federal income taxes, Federal purchases that replaced private purchases would increase Federal tax revenue, all else equal. However, State and local bonds have at times in the past earned lower returns than Treasuries due to their tax-exempt status. If such a situation were to occur, the Federal government would be paying more on the Treasury debt it issued to pay for these bonds than it would be earning on the bonds themselves. Finally, such securities carry credit risk.

Commented [E14]: Sometimes? Frequently?

Canada provides an illustration of some of the issues that could arise. In 1966, the Canadian Federal government began to invest pension surpluses in non-marketable provincial debt, at the federal long-term bond rate. This interest rate subsidy to the provinces may have encouraged provinces to overextend themselves. Moreover, although it never actually defaulted, Ontario flatly declared in the late 1970s that it would not repay its obligations. Such an approach should raise an additional concern presently. The Federal government will most likely need to draw down these assets in the face of the demographic pressures mentioned above, just as states and local municipalities face similar fiscal pressures.

Private Fixed Income Securities. Some of the assets described earlier as candidates for use in open market operations by the Fed, such as triple-A-plus securities or GSE issues, might also serve as investment vehicles for the national asset. But these assets are subject to the same concerns raised in the earlier context. For example, Fannie Mae and Freddie Mac together account for nearly half of all of the mortgages issued in the U.S. home mortgage market and the housing market could experience substantial increases in demand and price.

In the 1960s the Swedish government purchased the debt of government-owned mortgage corporations. The implicit subsidy to the housing market increased homeownership rates and household wealth. However, the financial system was very tightly regulated during this time. A subsequent deregulation led to a real estate price bubble that burst in the early 1990s. The resulting fall in asset prices had a significant negative effect on the economy; bad loans were subsequently collected into a special public corporation as part of a government rescue package for the Swedish financial system in the 1990s.

Equities. Both U.S. state and foreign governments have pursued a strategy of investing in equities and other financial market offerings. The key issue for the Federal government is whether it could make substantial investments in the private market without creating undue distortions. The experiences of California and Norway highlight the concerns, especially over time. Any investments should therefore be diversified and clearly regulated. Management must be independent of the government, to avoid any possible conflicts between the interests of the government as a financial investor and its broader public goals. Norway's Petroleum Fund is an endowment to help fund government. Current guidelines set limits on the magnitude of risk the Fund can incur from exchange rates, markets, interest rates, or credit risk. In addition, there are limits to the shares of the Fund to be invested in stocks or bonds and in the allocation of investments by region. Interestingly, none of the funds can be invested in Norway. Even with such strict guidelines, political concerns have surfaced regarding allocation and management of the Petroleum Fund including critique of specific investments in companies for their lack of environmental standards or abuses of human rights. In addition, there is significant pressure to use the fund to subsidize domestic investment.

Closer to home, the California Public Employees' Retirement System (CalPERS) follows a strategic asset allocation policy that identifies the percentage of the System's funds to be invested in each asset class. It invests in equities and bonds both domestically and worldwide. CalPERS has 9 percent of its total assets invested in California; earmarked through programs such as the CalPERS Single Family Housing Program, Member Home Loan Program, and private equity investments through limited partnership. Equity investments reach beyond state borders and CalPERS is one of the largest private equity investors in the world. CalPERS is well regarded as an investor by stakeholders and market participants alike; however as its state-specific programs illustrate, the investment of funds has not been entirely free from political consideration

Conclusion

Macroeconomic performance in 2000 continued to illustrate the benefits that have accrued to the United States from a combination of sound policies and a blossoming of technological opportunities. Strong growth, accelerating productivity, low unemployment, and stable inflation continue to characterize the longest economic expansion on record. The fiscal stance of the Federal government has been completely turned around from one of spiraling deficits to one in which it is possible to contemplate the elimination of the public debt. The critical task now is to maintain the fiscal discipline that has been achieved and focus on the need to have adequate resources available for the coming demographic challenge. [Transition to chapter three pointing to the opportunities the New Economy may offer to make the task easier]