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HOPE SCHOLARSHIPS

Divider Title: _____

PRESIDENT CLINTON CALLS FOR AMERICA'S HOPE SCHOLARSHIPS A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL

June 4, 1996

"This age of possibility means that more Americans than ever before will be able to live out their dreams. . . America knows that higher education is the key to the growth we need to lift our country. . . It's America's most basic bargain: We'll help create opportunity if you'll take responsibility." -- President Clinton, Princeton Commencement, June 4, 1996

TO REALIZE THIS AGE OF POSSIBILITY, PRESIDENT CLINTON IS COMMITTED TO A REAL GROWTH STRATEGY:

1. **Putting our economic house in order**, through both deficit reduction and a balanced budget. President Clinton has cut the deficit in half since taking office, and this year he submitted to Congress the first genuine balanced budget in 17 years.
2. **Opening new markets to create jobs for American workers**. More than 1 million new export-related jobs have been created under the Clinton Administration.
3. **Investing in our workers so they can seize the opportunity of today's economy**. To unlock the age of possibility for all Americans, we must give every single child, and every adult who needs it, the chance to get the best possible education.

PRESIDENT CLINTON NOW CALLS FOR NEW AMERICA'S HOPE SCHOLARSHIPS: To Make 4 Years of Education -- At Least Two Years of College -- the Standard for All Americans. President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.

- **\$1,500 Tax Cut For College Tuition.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a \$1,500 refundable tax credit for full-time tuition in their first year (\$750 for half-time), and another \$1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year.
- This \$1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges. This \$1,500 tax cut is \$300 more than the average community college tuition and would make community college "free" for 67% percent of community college students.
- This tax cut for middle-class families is paid for with new savings in President Clinton's balanced budget. America's HOPE Scholarships costs \$7.9 billion, which will be offset by reducing sales source rule benefits, applying an international departure fee, and auctioning radio DARS spectrum.
- **\$10,000 Tax Deduction for All Education and Training.** The President maintains his \$10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.

Pell Grant Scholarship Increases for Lower-Income Students: In announcing America's HOPE Scholarships, President Clinton also announced that his balanced budget will increase Pell Grants each year. Indeed, the maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002.

SENATOR BOB DOLE: "President Clinton had an idea that was pretty good and that was credits for two-year college students." -- Senator Bob Dole, Indianola IA campaign event, February 3, 1996.

AMERICA'S HOPE SCHOLARSHIPS BUILD ON PRESIDENT CLINTON'S PLAN FOR GUARANTEED ACCESS TO COLLEGE.

- **With the President's increased Pell Grant program support**, students have access to up to \$5,100 in Pell Grants and student loans for their first year in college, and much more in future years.
- **President Clinton's Direct Student Loan Program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income. This year, "Pay-As-You-Can" loans will account for nearly 50% of loans this year.
- **President Clinton's National Service Program -- AmeriCorps:** Last year, 30,000 students earned up to \$4,725 for service. By the end of next year, more than 65,000 students will benefit from this opportunity.
- **Work Study Expansion:** President Clinton's balanced budget includes an expansion of College Work Study to 1 million participants by 2002. The President has also challenged colleges to use additional work study funds to promote public service by putting students to work in the community.
- **Honors Scholarships for Outstanding High School Students:** President Clinton's balanced budget includes \$1,000 scholarship for the top 5% of graduating students in every high school class. If this proposal is enacted this year, 128,500 graduating high school seniors will receive a scholarship to help finance their college education.
- **IRAs for Education:** President Clinton's balanced budget would change the law to allow penalty-free withdrawals for education
- **Skill Grants:** President Clinton's balanced budget includes \$2,600 Skill Grants to enable dislocated workers to get needed skills
- **National Service College Scholarships To Reward High School Community Service:** President Clinton has challenged every high school student in the country to make a commitment to community service. To support this commitment, the President is asking all high schools to make service part of their basic ethic and to raise \$500 to reward a high school student who has done significant work to help his or her community. The federal government will then match the \$500 to help that student go on to college.

QUESTIONS AND ANSWERS AMERICA'S HOPE SCHOLARSHIPS

For Internal Use

1. Why are you making a new proposal now? What was wrong with your original one?

The President has worked throughout his career and his administration to expand access to college. He put in place two new programs to make it easier to go to college (National Service and Direct Lending), increased Pell Grants, and proposed a \$10,000 deduction, honors scholarships for the top 5% of every high school class, and expanding work study to 1 million students over the next five years. Today, he is taking another important step that will help make two years of college as universal as four years of high school. The President is so determined to expand college opportunity that he is putting forward \$8 billion in new budget savings to pay for this new proposal.

2. Aren't you just trying to pre-empt Senator Dole?

We have no idea what Senator Dole plans to propose, if anything. The President is only interested in setting forth his vision for the country -- and giving more Americans the chance to go to college is central to that vision. He also believes that any tax cut must be targeted and paid for. We can't go back to the days of something for nothing.

3. Isn't this just an election-year gimmick?

The President is giving a series of commencement addresses on the challenges we face as we move into the next century: restoring the social fabric; keeping America the strongest force for freedom and democracy; promoting economic growth; strengthening the family. He came to Princeton today to give a serious, thoughtful speech that laid out his vision of how to promote economic growth and raise incomes.

4. How are you going to pay for this?

The Hope Scholarship Tax Credit costs \$25.1 billion over six years; the \$10,000 deduction now costs \$17.8 billion -- for a total of \$42.9 billion, an increase of \$7.9 billion over the proposal in the President's balanced budget plan. To offset those new costs, the Administration is proposing new budget savings: Auctioning radio spectrum (\$2.1b); increasing international departure tax (\$2.3b); reduction of sales source rule benefits (\$3.5b). The cost of the deduction is reduced largely because more people make use of the credit, and also by lowering the income limits to conform to the income limits on the Administration's expanded IRA proposal (i.e. from \$120,000 to \$100,000).

5. Doesn't this trigger off in 2001?

The President is committed to a permanent proposal to offer the America's Hope Scholarship tax cut. This new proposal is completely paid for with new offsets. Under OMB scoring, this new tax credit would be extended indefinitely. If Congressional Budget Office economic assumptions come into effect and there are less revenues to offset the tax cut, the Administration will put forward additional spending cuts for FY2001 and FY2002 to ensure both that the tax credit continues and that the budget stays in balance.

6. Can you take both the credit and the deduction at the same time?

The credit is \$1,500 per student. The deduction is \$10,000 per family. A family could use the deduction for one or more children and the credit for others. No single individual or family member, however, could use both the credit and the deduction for the same student.

7. Isn't it strange that under your proposal a family in the 28% bracket with \$10,000 in tuition would get over \$2000 in tax cuts even without attaining a B average?

The vast majority of families will choose the Hope Scholarship tax credit and find it far to their financial advantage. (The credit is estimated to cost \$25.1 billion; the deduction \$17.8 billion.) For example, for a family that makes \$45,000 and has tuition of \$2000, the credit would be worth \$1200 a year more than the deduction.

All families in the 28% bracket with tuition under \$5300 will find the credit to their advantage. And families with two or more children who are near the maximum will often find it to their advantage -- because they can take the credit for one child and the deduction for another.

8. Why did you not apply the B average to the deduction?

The President's \$10,000 deduction was designed to make a major statement for all education: investment in human capital should be given a tax deduction just as investment in physical capital is. The \$10,000 deduction is for families and it is for any type of education that contributes to one's career advancement -- college, graduate school, career training. The Hope Credit is a special tax credit designed to specifically encourage all Americans to see that two years of college must be a national norm, and it is designed to say to every state: if you offer tuition within \$300 of the national norm, you can now provide free community college tuition for all of your residents.

9. Will this plan lead to grade inflation?

So far, in Georgia, there is little if any evidence of that. In fact, many students have dropped off after the first years.

10. This plan is supposed to be based on the Georgia plan, yet unlike Georgia, it does not require a B average in High School. Isn't this a different model?

The core of Georgia's plan is to expand access to college and challenge students to make the most of it. Like our plan, it requires students to maintain a B average in college in order to remain eligible.

Because they have made the bold decision to provide free tuition for four years of public college, they ask for a B average before making a student eligible for these extensive benefits.

The President's plan, gives everyone a chance for a start, and then like Georgia, requires a B average to maintain benefits. With this new federal partnership, the President's plan will make it more possible for more and more states to follow Georgia's move and provide four years of college tuition for those who perform at a B average.

America's HOPE Scholarships



**A Tax Cut to Make
14 Years Of Education
The Standard For All**

June 4, 1996

AMERICA'S HOPE SCHOLARSHIPS
A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL
June 4, 1996

PRESIDENT CLINTON ANNOUNCES THE HOPE SCHOLARSHIP PLAN TO MAKE 14 YEARS OF EDUCATION -- AT LEAST TWO YEARS OF COLLEGE -- THE STANDARD FOR ALL AMERICANS. President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life. To further this guarantee, the President announced the following proposals:

- **NEW AMERICA'S HOPE SCHOLARSHIP TAX CUT -- Guarantees 2 Years of Tuition at the Average Community College for Any Student Who Earns a B Average.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a \$1,500 refundable tax credit for full-time tuition in their first year (\$750 for half-time), and another \$1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year. This \$1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges -- and a downpayment at more expensive four-year schools.
- **\$10,000 Tax Deduction for All Education and Training.** The President maintains his \$10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.
- **Scholarship Increases (Pell Grants) for Lower-Income Students:** The President announced that his balanced budget plan increases Pell Grants each year. Indeed, the maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002. The proposed fiscal 1997 increase in the maximum award would be the largest since implementation of the program in the 1970s.

BUILDS ON PRESIDENT'S PLAN FOR GUARANTEED ACCESS TO COLLEGE. The above initiatives build on the President's plan to guarantee that college is both accessible and affordable to every person -- through loans with pay-as-you-can repayment, grants, scholarships, and work study.

- **With the increased Pell Grant program support,** students have access to up to \$5,100 in Pell Grants and student loans for their first year in college, and much more in future years.
- **The new Direct Student Loan program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income, and part of the savings from Direct Lending will be returned to students in the form of lower interest payments on their loans.
 - **New Direct Loans With Pay-As-You-Can Option:** Will account for 50% of loans
 - **National Service -- AmeriCorps:** 30,000 students earning up to \$4,725 for service
 - **Pell Grants:** Provides for 7-year expansion, increasing maximum award to \$3,128 in 2002
 - **\$10,000 Education Deduction:** 16.5 million students get deduction for their tuition
 - **Work Study Expansion:** Proposes expansion to 1 million participants by FY2002
 - **Honors Scholarships:** Proposes \$1,000 scholarship for top 5% of every high school class
 - **IRAs for Education:** Proposal allows penalty-free withdrawals for education
 - **Skill Grants:** Proposed \$2,600 Skill Grants to enable dislocated workers to get needed skills

America's HOPE Scholarship Tax Cut

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Tuition and Fees at Public Two-Year Institutions

<u>State</u>	<u>Average (1994-95) Tuition</u>	<u>Share of Average Tuition Covered By \$1,500 Credit</u>
AK	\$1,320	100%
AL	\$621	100%
AR	\$865	100%
AZ	\$727	100%
CA	\$363	100%
CO	\$1,227	100%
CT	\$1,520	99%
DE	\$1,266	100%
FL	\$1,064	100%
GA	\$1,019	100%
HI	\$499	100%
IA	\$1,696	88%
ID	\$990	100%
IL	\$1,188	100%
IN	\$1,797	83%
KS	\$1,014	100%
KY	\$1,009	100%
LA	\$769	100%
MA	\$2,435	62%
MD	\$1,857	81%
ME	\$2,188	69%
MI	\$1,411	100%
MN	\$1,965	76%
MO	\$1,227	100%
MS	\$934	100%
MT	\$1,414	100%
NC	\$581	100%
ND	\$1,666	90%
NE	\$1,083	100%
NH	\$2,315	65%
NJ	\$1,762	85%
NM	\$601	100%
NV	\$835	100%
NY	\$2,142	70%
OH	\$2,105	71%
OK	\$1,123	100%
OR	\$1,328	100%
PA	\$1,751	86%
RI	\$1,686	89%
SC	\$1,022	100%
SD	\$2,379	63%
TN	\$907	100%
TX	\$672	100%
UT	\$1,358	100%
VA	\$1,382	100%
VT	\$2,196	68%
WA	\$1,334	100%
WI	\$1,721	87%
WV	\$1,372	100%
WY	\$894	100%

Source: U.S. Department of Education. Estimate of share of tuition and fees covered by the HOPE Scholarship if it has been available in 1994-1995.

BACKGROUND ON HOPE SCHOLARSHIPS

Overview. Currently, millions of Americans have access to college through Pell Grants and the federal student loan program, including the President's Direct Student Loan program, but the average student with loans now graduates \$10,000 in debt and many more may not go on to college because they are reluctant to borrow so much money. The annual cost of a public college increased from 9% of the typical family's income in 1979 to 14% in 1994. [Education Department, 1996] *The President's HOPE Scholarship Plan makes it clear that two years of college should be as universal as high school, and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.*

- **Guaranteed Average Tuition For Two Years of Community College:** The HOPE Scholarship Plan will ensure that students can get up to a \$1,500 refundable tax credit, a Pell Grant, or a combination for tuition in their first year after high school, and another \$1,500 in their second year if they work hard, stay off drugs, and earn at least a "B" average. This \$1,500 credit is \$300 above the national average community college tuition and would make tuition free for 67% of all community college students. It would enable states that set tuition within \$300 of the national average *to make community college tuition free for every student.* The credit would be indexed to inflation each year to protect its value.
- **\$1,500 For The First Two Years At Any College For Students Who Earn At Least a B Average:** While the HOPE Scholarship tax credit is priced to pay for the full cost of two years of community college tuition for students who earn at least a "B" average in their freshman year, the \$1,500 credit can be applied to tuition at any college, from a two-year public community college to a four-year private college. This \$1500 tax credit will be a substantial downpayment for parents sending their children to colleges with higher tuition.
- **\$750 for Half-Time Students:** The HOPE Scholarship Tax Cut is designed to assist parents and current workers who want to further their education. Those who can only go to school half-time because of their job or parenting obligations, are eligible for a \$750 refundable credit per year until they have completed two full years of college. The "B" average requirement also applies to half-time students.
- **Includes 1-Year Certificate Programs:** Students at training and technical programs eligible for Pell Grants under Title IV of the HEA are also eligible HOPE Scholarships.
- **Interaction with the \$10,000 Education Tax Deduction:** Students would receive either the HOPE scholarship or the \$10,000 tax deduction in any year. Eligible students in their first two years or their parents can choose between either the Hope Scholarship or the deduction. The deduction is up to \$10,000 a year per family. The credit is \$1,500 per student.

- **Costs:** The HOPE Scholarship Plan is fully paid for within the President's balanced budget plan. The President's initial proposal for a \$10,000 deduction cost \$35 billion over six years. The new proposal, with the \$1,500 tax credit, costs \$42.9 billion over 6 years. To offset this increase, the Administration proposes to reduce sales source rule benefits, apply an international departure fee, and auction radio DARS spectrum.

In addition, the \$10,000 deduction is also more targeted by conforming the income limits to match the income limits for the proposed expanded IRAs. The deduction had been phased out for joint filers with income between \$100,000 and \$120,000, and for single filers with income between \$70,000 and \$90,000. It will now be phased out for joint filers with income between \$80,000 and \$100,000, and for single filers with incomes between \$50,000 and \$70,000. These income limits would apply to the \$1,500 tax credit as well as the \$10,000 deduction.

- **"B" Average:** To remain eligible for the credit, students must earn at least a "B" average or a 2.75 grade point average in their first year of college or post-secondary school. Based on the National Post-Secondary Student Aid study, more than half of students earn a 2.75 average or better.
- **Students Must Stay Drug-Free:** A student is ineligible if, in accordance with the Drug-Free Post-Secondary Education Act of 1990, he or she has been convicted of committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.
- **Administration:** Administrative issues such as the timing and delivery of the tax credit will require consultation with colleges to ensure that the plan provides maximum flexibility and efficiency rather than top-down administration. The Treasury Department and Department of Education will work with Members of Congress, Governors, and college presidents and financial aid administrators to design the most flexible and efficient system, and to ensure against excessive and abusive tuition increases.
- **Challenge to States.** The President is challenging states to build on the HOPE Scholarship Plan by following Georgia's lead and making scholarships available for four years of college for students who maintain a "B" average. The President is also challenging the 17 States that set tuition above \$1,500 to reduce costs so that with the HOPE Scholarship tax cut, community college will be free for every student.

Paying For America's HOPE Scholarship Tax Cut

Balanced Budget Framework. The President's new America's HOPE Scholarship Tax Cut proposal is completely paid for with specific budget savings so that the President's overall plan continues to reach balance in fiscal year 2002.

Current Education Tax Deduction: \$35 Billion FY 1997-2002. The President's current education tax cut -- \$10,000 deduction -- costs \$35 billion over 6 years (FY 1997-2002) and is paid for within the balanced budget plan that has been certified as reaching balance in 2002 by the Congressional Budget Office.

New Proposal: \$42.9 Billion FY 1997-2002. The new combined proposals would be \$42.9 billion. The breakout of these costs are as follows:

	FY 1997-2002 Cost
America's HOPE Scholarship Tax Cut	\$25.1 Billion
\$10,000 Education Tax Deduction	\$17.8 Billion
TOTAL COST	\$42.9 Billion

The additional \$7.9 billion in net new costs are paid for with specific savings listed below:

	FY1997-2002 Savings
Reduction of Sales Source Rule Benefits	\$3.5 Billion
International Departure Fee	\$2.3 Billion
Auction Radio DARS Spectrum	\$2.1 Billion
TOTAL SAVINGS	\$7.9 Billion

NOTE: While the President's new America's HOPE Scholarship Tax Cut has gross costs of \$25.1 billion over FY 1997 to 2002, the net increase in the President's overall education tax cut is only \$7.9 billion because of savings that take place in the President's \$10,000 education tax deduction.

- Most of those savings (\$10.7 billion) come from families choosing the HOPE tax credit over the \$10,000 education tax deduction.
- The remaining savings (\$6.5 billion) come from lowering the phase out income limits for joint filers from \$120,000 to \$100,000 to conform to the Administration's expanded IRA proposal.

BACKGROUND ON NEW SAVINGS MEASURES

REDUCTION OF SALES SOURCE RULE BENEFITS

(FY 1997 - 2002)

SAVINGS

\$3.5 Billion

Description: The proposal would limit the ability of multinational corporations to decrease their U.S. tax liability inappropriately, by reducing the amount of export sales income that they may treat as derived from foreign sources. Under current law, the sales source rule generally permits multinational corporations that also exports U.S. products to treat half of their export profits as income from sales activities, and therefore as foreign source income, even though the economic activity that produced the export profits may have occurred entirely within the United States. The source of income is relevant to the determination of a U.S. taxpayer's foreign tax credit. By increasing the amount of income treated as foreign source, a taxpayer with "excess" foreign tax credits can increase its utilization of foreign tax credits and therefore pay less U.S. tax on the same income. The sales source rule of present law provides generous tax benefits to U.S. exports that also conduct foreign manufacturing or other high-taxed foreign operations, but provides no benefit at all to U.S. exporters that conduct all their business activities within the United States. The proposal would reduce the percentage of export profits that generally is treated as sales (and thus foreign) income from 50 percent to 25 percent.

The provision would be effective for taxable years beginning after the date of enactment.

AUCTION RADIO DARS SPECTRUM

(FY 1997 - 2002)

SAVINGS

\$2.1 Billion

Description: This savings proposal would auction 25Mhz of spectrum currently reserved for digital audio radio services (DARS) for subscription based wireless services. The FCC had originally allocated 50 Mhz for DARS, which would provide 4 channels of a national, subscription-based radio service. Due to interference problems with Canada, DARS would be allocated 2 channels instead of 4, freeing up 25 Mhz for auction. The revenues of auctioning 25 Mhz of spectrum are estimated at \$2.1B by CBO and OMB. These auctions could be done in any year.

INTERNATIONAL DEPARTURE FEE

(FY 1997 - 2002)

SAVINGS

\$2.3 Billion

Description: The President's FY '97 Budget assumes that the currently expired aviation excise taxes, including the \$6 per passenger international departure fee, will be reinstated in August, 1996. This offset proposal would increase the per passenger tax from \$6 to \$16.

BACKGROUND ON PELL GRANT INCREASE

Overview. The Pell Grant is the main federal grant that allows millions of low-income and middle class families to have access to college. Despite the fact that the President's budget contains well over \$200 billion in discretionary cuts over 7 years, the President's balanced budget builds in a 33% increase in the maximum Pell Grant award from FY1995 to FY2002.

- **\$2 Billion Program Deficit Eliminated.** The projected \$2 billion Pell Grant program deficit was eliminated within the first two years of the Clinton Administration.
- **Record Increase in FY1997:** The President's fiscal year 1997 budget calls for funding to support a \$2,700 maximum Pell Grant -- nearly a 10% increase over the current level -- which would provide more than 3.7 million students with Pell Grants averaging \$1,706 in 1997. This proposed increase in the maximum Pell Grant award would be the largest increase since implementation of the program in the 1970s.
- **President Announces Yearly Pell Grant Increases:** The President's balanced budget contains the following seven-year increase in the maximum Pell Grant awards.

<u>Fiscal Year</u>	<u>Maximum Award</u>
1995	\$2,340
1996	\$2,470
1997	\$2,700
1998	\$2,780
1999	\$2,863
2000	\$2,949
2001	\$3,037
2002	\$3,128

- **President's 7-Year Pell Grant Increase Could Provide 2.7 Million More Grants Than Republican Budget Resolutions:** Both the House and Senate FY1997 Budget Resolutions freeze the budget authority for the Pell Grant program from FY1997 -FY2002. This means that Republicans would provide 2.7 million fewer Pell grants over 6 years, and deny 191,000 students Pell grants in FY1997 alone compared to the President's balanced budget plan. Under the funding freeze assumed in the Republican resolutions, the maximum Pell grant award would decrease 17%, from \$2,470 in FY1996 to \$2,055 in FY2002.

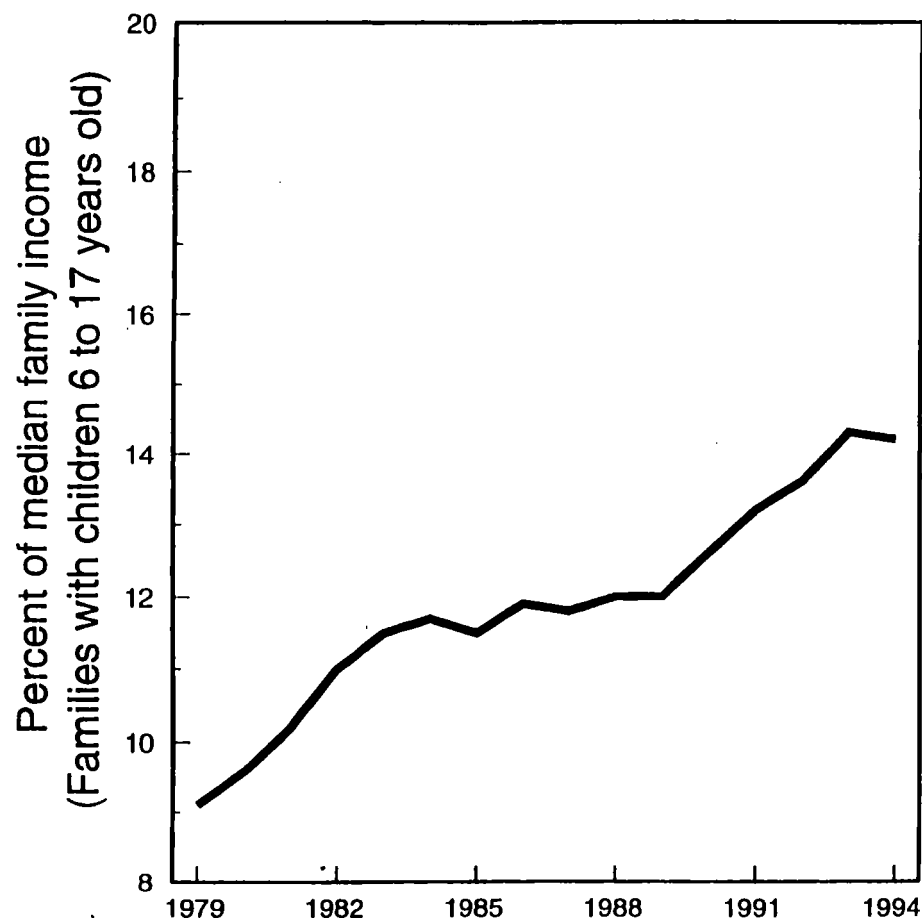
Last year, House Republicans tried to cut the Pell Grant program by \$450 million, denying Pell Grants to 380,000 students in 1996 alone.

\$10,000 EDUCATION DEDUCTION

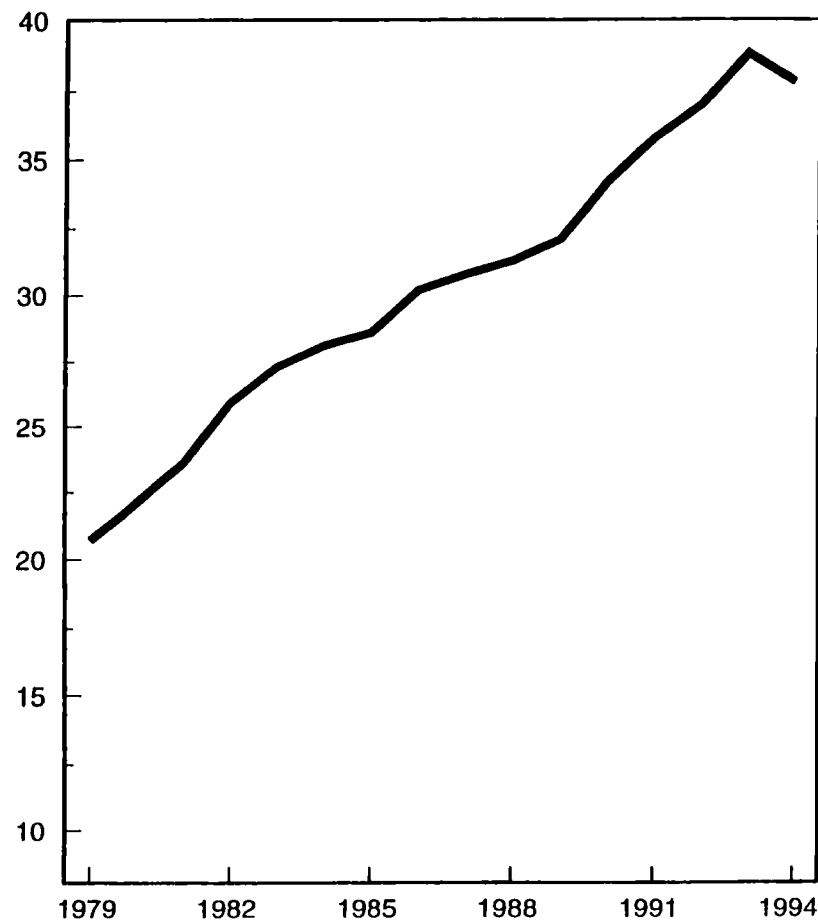
- **Breadth of Application:** The \$10,000 Education Deduction would be for every taxpayer for the tuition at any education or training program that is at least half-time or related to a worker's career.
- **Supplements Hope Scholarship Tax Cut:** In any year, students in the 13th and 14th grades would receive either the HOPE Scholarship or the \$10,000 tax deduction. Eligible students in their first two years or their parents can choose between either the HOPE Scholarship or the deduction. Students that relied on the \$1,500 tax credit in the first two years of college would still be eligible for the \$10,000 deduction in the remaining years of college or graduate school or for qualified lifelong learning. Students not eligible for the tax credit would still be eligible for the \$10,000 deduction. The deduction is up to \$10,000 a year per family. The credit is \$1,500 per student.
- **Income Limits:** For joint filers, the deduction would be phased out at incomes between \$80,000 and \$100,000. For single filers, the deduction would be phased out between \$50,000 and \$70,000.
- **Unlimited Number of Years:** While the HOPE Scholarship is for the first two years of college, the \$10,000 tax deduction is available any year a family had education expenses. For example, a family of four with an income of \$40,000 and five years of tuition expenses totaling \$10,000 would receive a \$7,500 tax cut over that five-year period.

Cost of College As Percent of Typical Family Income

Public Institutions



Private Institutions



Source: Department of Education, *The Condition of Education 1996*, p 76.

* Includes Calculation of Tuition, Room and Board

America's HOPE Scholarship Tax Cut

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GEORGIA HOPE SCHOLARSHIPS

"The most far-reaching scholarship program in the nation"
-- *Los Angeles Times*, April 5, 1994

PROGRAM DESCRIPTION: The Georgia HOPE program, established by Governor Zell Miller in April 1993, provides full tuition, fees, and books at any in-state public college to any Georgia student who graduates from high school and maintains a B average or better in college.

A TRULY UNIQUE PROGRAM THAT PROVIDES HOPE FOR GEORGIA STUDENTS:

- **Governor Zell Miller.** "Of all the things that I've ever been involved with, It's the one thing that I'm most proud of. We are making college accessible in a way it never has been before in Georgia." [February 12, 1995]
- **Atlanta Journal Constitution.** "Where else in America can children know, from elementary school on, that if they work hard and earn a 3.0 average by graduation from high school, they can fulfill the dream of going to college whether their family has money or not? That's the opportunity created by Georgia's HOPE scholarship program. ...It's a marvelous thing, and it is a solemn promise from the state to its young residents. It is not, however, an entitlement requiring no effort. Students must meet the standards to get the scholarships, and they must keep up the struggle to hold onto them once they enter college." [Atlanta Journal Constitution, September 7, 1994]
- **Barry Fullerton, Vice Chancellor, University of Georgia.** "It's an ingenious program. It's a great public policy, and it has benefited thousands of students." [The Courier-Journal, April 9, 1995]
- **Orlando Sentinel.** "Imagine a state where every student with a B average gets a full college scholarship. ...Don't have that fanciful an imagination? You don't need one. You just need to look north, to Georgia." [Orlando Sentinel, April 8, 1996]
- **Atlanta Journal Constitution.** "It is, quite simply, an effort to help Georgia's young people become well-educated, productive citizens." [Atlanta Journal Constitution, December 16, 1994]

ELIGIBILITY REQUIREMENTS: Students must meet the following requirements:

2-Year and 4-Year Public Colleges/Universities

- For a HOPE Scholarship to a 4-year public college, graduating high school students must have a 3.0 cumulative grade point average on a 4.0 scale or an 80 numeric average and obtain a diploma with a State of Georgia College Preparatory Seal. (In order to obtain the college preparatory seal, students must meet and graduate from the required core college preparatory curriculum.)
- For a HOPE Scholarship to a public college, graduating high school students who do not meet the 3.0 grade in the core curriculum, must have a 3.2 cumulative grade average on a 4.0 scale or an 85 numeric average in other curriculum tracks.
- Students who maintain a B average in a 4-year public college and stay off drugs can continue to receive the same level of support for up to four years.

- Students whose college grades fall below 3.0 can requalify a year later if they bring their grades back up above 3.0.
- Students who are not eligible for HOPE scholarships upon graduation of high school, or who enter college later in life, can obtain HOPE scholarships after their sophomore year if they obtain a cumulative 3.0 grade average.

2-Year and 4-Year Private Colleges/Universities

- Students receive \$3,000 a year in HOPE money, but only if they have and maintain a B grade average.

Technical Schools and Adult Education Institutes

- All students in a diploma or certificate program at a Georgia technical institute are eligible for HOPE.

Universal Requirements

- All students must stay drug free. A Student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

KEY FACTS:

- During the first 3 years of the program (1993-1995), nearly 200,000 Georgia students qualified for and received some form of HOPE scholarship.

HOPE Scholarship Students 1993-1996

University System	60,682
Technical Institutes	74,830
Private Colleges	45,423
GED Recipients	9,066
TOTAL	190,001

- In the 1995-1996 school year, 70 percent of University of Georgia freshman students received a Georgia HOPE scholarship.
- The racial composition of those receiving HOPE scholarships mirrors that of the overall university system (75% white, 20% black).
- 84% of HOPE students who enrolled in public colleges in Fall 1994 were still in college in Fall 1995, versus 74% of all students.
- A 1995 poll by Georgia State University found that 77 percent of Georgia residents who were aware of the program thought it would lead parents to take a more active interest in their children's education.
- Since the start of the program, enrollment in Georgia's technical and adult education institutions has increased 24 percent. Enrollment increased 8 percent in 1995, alone.

ARKANSAS ACADEMIC CHALLENGE SCHOLARSHIPS

"We need more of our young people going to college and we need them to succeed and stay in college. This program will help them accomplish that goal."

-- Governor Bill Clinton, July 12, 1991

PROGRAM DESCRIPTION: Governor Bill Clinton signed the Arkansas Academic Challenge Scholarships into law on May 5, 1991, creating a guaranteed scholarship plan to promote academic achievement and encourage academically prepared Arkansas high school graduates to enroll in the state's colleges and universities. Through the 1993-1994 school year, the scholarship provided the lesser of \$1000 or the annual tuition. For the 1994-1995 school year, the scholarship was increased to provide annually the lesser of \$1500 or the annual tuition. The scholarship is renewable for up to 3 more years, provided the student meets the continuing eligibility standards established by the Arkansas Department of Higher Education.

REQUIREMENTS:

- **Income Requirement.** For families with one dependent child, income cannot exceed \$30,000 per year. An extra \$5,000 of family income is allowed per child.
- **Grade-Based Awards.** Awards are based on the applicant's meeting minimum standards with regard to the ACT composite score, grade point average (GPA) in the pre-collegiate core curriculum.
 - * Applicants must have a composite ACT score of 19 and a grade point average of 2.50 on a 4.00 scale, in the precollegiate core curriculum.
 - * Applicants not meeting either the grade point average or ACT requirements may still qualify for the Academic Challenge Scholarship if their combined ACT score and grade point average meet satisfactory levels when applied to a selection index (i.e. a student with a 15 ACT would have to achieve a minimum 3.25 GPA; a student with a 26 ACT would only have to have a 2.0 GPA.)
- **All students must stay drug free.** A student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.
- **Students must maintain their grades once in college.** In order to retain their scholarship for an additional year, students keep their grades above state-specified levels.

KEY FACTS:

- In 1987, 32 percent of Arkansas students who took the ACT had completed high school pre-college core curriculum. By 1992, the first year of the Academic Scholarships Program, that percentage rose to 48.
- The number of high school students qualifying for and receiving the Arkansas Achievement Scholarship has increased dramatically each year. In the 1991-1992 school year, there were 1,024 recipients. In the 1994-1995 school year, 5,383 students received awards.
- While Bill Clinton was governor of Arkansas, the percentage of high school students going on to college increased by 50% (from 38.2% in 1982 to 57.3% in 1992). The Arkansas "going rate" has remained steady since 1992.

Bureau of the Census Statistical Brief

More Education Means Higher Career Earnings

Is it worth it to stay in school and earn a higher degree? As data from the Census Bureau's Current Population Survey show, the answer is a resounding yes!

This Brief examines the relationship between education and earnings during the 1992 calendar year; it also demonstrates how the relationship has changed over the last two decades. Additionally, it provides estimates (by level of education) of the total earnings adults are likely to accumulate over the course of their working life.

You'll see that more education means greater earnings over a year's time; over the length of one's working life, these differences become enormous. Moreover, this relationship between earnings and education is now even stronger than it was back in the 1970's.

We're more educated than ever.

In 1993, about four-fifths of American adults aged 25 and over had at least completed high school; over one in five had a Bachelor's degree or higher. Both figures are all-time highs.



SB/94-17
Issued August 1994

U.S. Department of Commerce
Economics and Statistics Administration
BUREAU OF THE CENSUS

Professional degree holders have the highest earnings.

Adults aged 18 and over who worked sometime during 1992 earned an average of \$23,227 that year. But this average masked the fact that the more education they received, the more money they made. (See graph below.) Earnings ranged from \$12,809 for high school dropouts to \$74,560 for those with professional degrees (such as M.D.'s and J.D.'s).

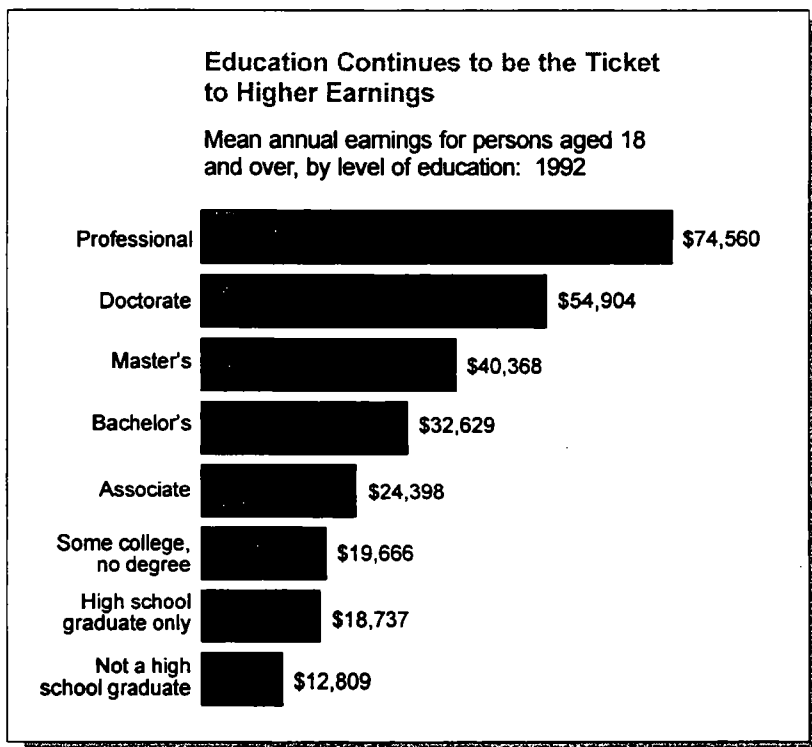
Earnings differences compound over one's lifetime.

Using 1992 data, we estimated the earnings a person would accrue over a typical "worklife." Here's

how we did it. First, we defined a worklife as lasting from ages 25 to 64 — a 40-year period. Then we began our calculations.

We started with high school dropouts. We took the 1992 mean earnings figure for persons of this group who were aged 25 to 34 and multiplied it by 10. The same thing was done for those aged 35-44, 45-54, and 55-64. Then, the four 10-year totals were added up. The result was an estimated lifetime earnings total for high school dropouts. This process was then repeated for each of the other seven educational levels.

These estimates dramatically illustrate the large earnings differences



that develop between educational levels over the long term. As the graph below shows —

- High school dropouts would make (in 1992 dollars) around \$600,000 during their lifetime.
- Completing high school would mean about another \$200,000.
- Persons who attended some college (but did not earn a degree) might expect lifetime earnings in the \$1 million range.
- You could tack on nearly another one-half million dollars for holders of a Bachelor's degree.
- Doctorate and professional degree holders would do even better, at just over \$2 million and \$3 million, respectively.

Lifetime differences may become even more striking in the future.

These estimates of lifetime earnings assume that 1992 earnings levels will stay in effect throughout one's worklife. But the reality is that the value of the dollar continually changes. And recent history shows that the value of higher levels of education has risen faster than that of lower levels. When we compare 1975 and 1992 figures, we see that average earnings —

- Doubled for high school dropouts (from \$6,014 to \$12,809).
- Rose 2.5 times for those who were high school graduates only (from \$7,536 to \$18,737).
- Nearly tripled for holders of Bachelor's degrees (from \$11,574 to \$32,629).
- Tripled for those who held advanced degrees (from \$15,619 to \$48,653).

Keep in mind that in 1992 the consumer price index (which measures yearly changes in the value of the dollar) was 140, 2.5 times what it was in 1975. This means that the earnings of high school dropouts did not even keep up with infla-

tion, and high school graduates just barely managed to keep pace. Real wages rose only for persons with education beyond the high school level. If these patterns continue, lifetime earnings differences between low and high levels of education will become even more dramatic than current levels indicate.

More information:

Several Census Bureau reports have information on the relationship between earnings and education. These include —

■ *Educational Attainment in the United States: March 1993 and 1992*, Current Population Reports, Series P20-476. Stock No. 803-005-00077-0. \$8.50.

■ *What's It Worth? Educational Background and Economic Status: Spring 1990*, Current Population Reports, Series P70-32. Stock No. 803-044-00020-1. \$3.50.

■ *Money Income of Households, Families, and Persons in the United States: 1992*, Current Population Reports, Series P60-184. Stock No. 803-005-30031-5. \$19.

■ *Education in the United States*, Series 1990, CP-3-4. Stock No. 003-024-08742-1. \$41.

To order any of these publications, call the U.S. Government Printing Office (202-512-1800).

Contacts:

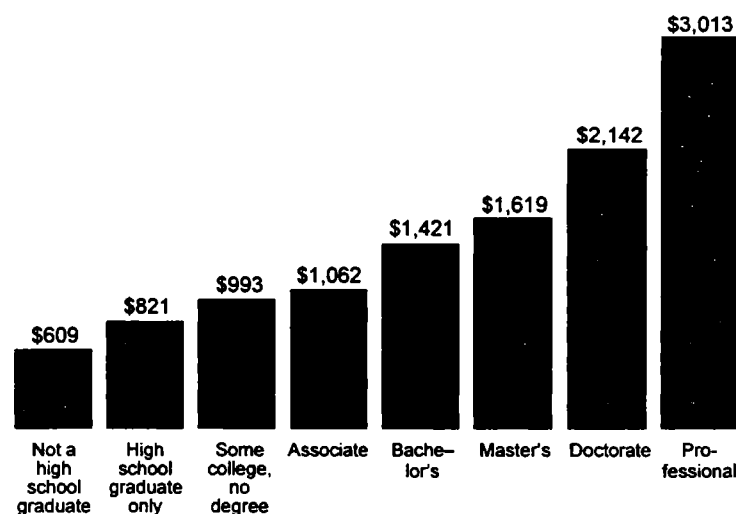
Earnings and education —
Robert Kominski
301-763-1154

Statistical Briefs —
Robert Bernstein
301-763-1584

This Brief is one of a series that presents information of current policy interest. It may include data from businesses, households, or other sources. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources.

Go to College, Make a \$Million

Estimates of worklife earnings, by level of education: 1992
(In thousands of dollars)



ECONOMIC RETURNS TO INVESTMENTS IN EDUCATION AND TRAINING

- Empirical studies indicate that each additional year of formal schooling is associated with a 6 to 12 percent increase in annual earnings later in life. [Kane and Rouse, 1995; Ashenfelter and Krueger 1994; Angrist and Krueger, 1991]
- This earnings benefit is not limited to education at four-year colleges; it also accrues from attendance at community colleges. [Thomas Kane and Cecilia Rouse, Labor Market Returns to Two and Four-Year College: Is a Credit a Credit and Do Degrees Matter American Economic Review, Vol. 85, No. 3, 1995.]
- The wage premium for better-educated workers has expanded dramatically over the past fifteen years. In 1979, full-time male workers aged 25 and over with at least a bachelors degree earned on average 49 percent more per year than comparable workers with only a high school degree. By 1993, the difference had nearly doubled, to 89 percent. [Economic Report of the President 1996, page 191.]
- Economists have long argued over whether education causes higher earnings, or whether those with better earnings prospects -- for example, because of greater innate ability -- simply consume more education. Recent analyses of compulsory schooling laws (which force students to consume more education regardless of their innate ability) and wage differentials between twins (who should have similar levels of innate ability) strongly suggest that schooling actually leads to higher earnings. [Joshua Angrist and Alan Krueger, Does Compulsory School Attendance Affect Schooling and Earnings; Quarterly Journal of Economics, November 1991; Orley Ashenfelter and Alan Krueger, Estimates of the Economic Returns to Schooling from a New Sample of Twins, American Economic Review, December 1994.]
- A college graduate is 43 percent more likely to be working in a job with a pension plan than a high school graduate and a college graduate is 27 percent more likely to have a job with health care coverage than a high school graduate. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]
- Since the early 1980s, high skill jobs are growing the fastest. Jobs requiring high skill levels grew by 32% over the period 1984-1994 while jobs requiring low skill levels grew by only 7%. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]

- Job displacement studies show that better-educated workers are less likely to lose their jobs than less-educated workers, although this advantage has declined over time. If better-educated workers do lose their jobs, they are more likely to find new jobs (which are more likely to be full-time), and they tend to suffer smaller proportional earnings losses than less-educated workers. [Henry S. Farber, The Changing Face of Job Loss in the United States, 1981-1993, Department of Economics, Princeton University, March 12, 1996.]
- Training workers also has significant payoffs. According to academic research conducted by Lisa Lynch before she became Chief Economist at the Labor Department, a year of either on-the-job training or formal training for workers raises wages by about as much as a year of college education. [Lisa Lynch, Private Sector Training and the Earnings of Young Workers, American Economic Review, Vol. 82, No. 1, 1992.]
- Other studies conclude that firm-provided training seems most effective when combined with other innovative workplace practices. [U.S. Department of Labor, High Performance Work Practices and Firm Performance, 1993; David Levine, Reinventing the Workplace: How Business and Employees Can Both Win (Washington: Brookings, 1993).]
- Education and training boost economic growth. Data from the Bureau of Labor Statistics suggest that the rise in the average educational attainment of the workforce accounted for one-fifth of the annual growth in productivity between 1963 and 1992. [Economic Report of the President 1996, pages 191-2.]
- International evidence reveals that, all else equal, those nations with the highest school enrollment rates in the early 1960s tended to enjoy the most robust growth in subsequent decades. [N. Gregory Mankiw, David Romer, and David Weil, A Contribution to the Empirics of Economic Growth, Quarterly Journal of Economics, Volume 107, May 1992.]

Clinton Presidential Records Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

FLEX - TIME

Divider Title: _____

Q&A ON FLEXTIME
AND EXPANSION OF THE FAMILY AND MEDICAL LEAVE ACT
June 24, 1996

Flex-time Proposal:

Q: *Would the President veto the Ballenger bill?*

A: The President indicated that he would strongly oppose any bill that would allow coercion and uses phrases like "comp-time" as cover to limit workers' choices.

Q: *Would the President veto a minimum wage increase if it included the Ballenger bill?*

A: I'm not going to get into hypotheticals. But the President has said the Congress should pass a clean minimum wage bill, and he has indicated that he would strongly oppose any bill that would allow coercion and uses phrases like "comp-time" as cover to limit workers' choices.

Q: *How does flex-time differ from the Republican comp-time proposals?*

A: The President's proposal provides workers and employers with more flexibility and choice while protecting workers from coercion through a range of safeguards. For example under the President's proposal a worker cannot be forced to take flex-time unless they request it in writing before performing the overtime. And workers can use their accumulated flex-time at any time with two weeks notice, rather than putting it at the discretion of the employer.

Q: *How does this affect public sector employees?*

A: This proposal is for the private sector, but we would certainly be willing to discuss extending its additional protections to public sector workers.

Q: *Why do you cap the amount of flex-time at 80 hours when federal and state government employees enjoy up to 240 hours of flex-time?*

Q: The proposal strikes a balance between providing more flexibility and protecting workers from coercion. Based on experience with the flex-time in the private sector, we may want to broaden it after the first four years. Under the proposal, flex-time would sunset in four years unless extended, and a Commission would report to Congress on its impact before it sunsets.

Q: *How does this affect unionized workers?*

A: Their collective bargaining unit would govern, but our flex-time proposal would give unions and employers more choices in what they could negotiate.

Q: *How can small employers manage to let workers use their flex-time at any time with only two weeks notice? Couldn't some small businesses be left with no one to manage the store at Christmas?*

A: Flex-time would be options for both employer and employees; both would need to mutually agree to flex-time. Some employers and employees may prefer to maintain the current overtime policy. We are providing a new option and flexibility.

But it is important to note that flex-time is time that workers earned by working overtime, which is why it is appropriate that workers be able to take it with two weeks notice or with less notice if the employer is not unduly disrupted.

Q: *How does organized labor feel about this?*

A: That's a question you should ask them.

Q: *Are you trying to distance yourself from the labor unions? Is this Sister Soulja?*

A: Not at all. We strongly believe this proposal provides both employees and employers with more choice and flexibility while protecting workers from coercion. *Some may disagree with the proposal, but that is not our intent.*

Q: *Isn't this just me-too-ism?*

A: That is absurd.

1. This President has been a leader on work and family issues right from the start. The Family and Medical Leave Act was the first bill he signed, after Republicans had opposed it, President Bush had vetoed it, and Republicans still oppose it today.

President Clinton has also expanded the Earned Income Tax Credit so no parent has to raise their kids in poverty, while Republicans have tried to cut it.

2. Moreover, the President's proposal differs from other current proposals. The President's proposal provides flex-time the right way: it provides employee and employer choice. The Republican proposals provide only employer choice. The President's proposal provides flexibility while protecting workers from coercion.

Q: *Who would be covered by flex-time?*

A: Our flex-time proposal would apply to the firms covered by the Fair Labor and Standards Act. The FLSA covers nearly all businesses [excluding workers at enterprises with annual gross revenues of \$500,000 or less and who are also not engaged in interstate commerce]. Certain employees, such as bonafide executives, administrative, and professional employees are exempt from the overtime provisions of the FLSA and would also be exempt from our flex-time proposal.

Our proposal would contain specific protections for workers especially vulnerable to coercion from employers to accept flex-time rather than overtime pay, or vice versa. For example, the proposal would exclude temporary, seasonal, and part-time workers, and the Secretary of Labor could recommend excluding low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse.

Q: *Are there going to be any special "carve outs" for specific industries --- like the construction industry?*

A: Every industry is different, and those differences need to be taken into account. The President's proposal gives the Secretary of Labor the authority to recommend excluding certain occupations or industries that show a pattern of abuse. Flex-time cannot become a tool for some employers to cut their costs by cutting their workers' pay in a race to the bottom for new business.

Q: *How does this affect small businesses? Isn't this yet another burden on small business?*

A: Small and large businesses have been pushing for flex-time for a long time. The difference between our proposal and the Republican proposals is that we would provide workers with more choices and would protect against employers' coercing workers.

The bipartisan Commission on Leave found that the Family and Medical Leave Act is not costly or complex to administer, and smaller businesses often found it easier to comply than larger sites.

Family and Medical Leave Expansion:

Q: *What about the Dodd proposal to extend the FMLA to smaller businesses -- businesses with under 50 employees?*

A: We have no plans to do so at this time.

Q: *Does your Family and Medical Leave Act expansion provide an additional 24 hours (3 days) of leave in addition to the 12 weeks currently provided under the Act?*

A: Yes, the 24 hours are in addition to the 12 weeks currently allowed under the Act.

Q: *How will you prevent workers from abusing the expansion of the FMLA to take time off from work for inappropriate purposes?*

A: We start with the assumption that workers can be trusted to take leave only when they need it. Moreover, few workers can afford to take unpaid leave unless they need to. Based on experience with the FMLA to date, we don't expect it will be a problem, but we will provide for appropriate safeguards.

Q: *Why should a worker be able to take time off from work to take a grandparent to the doctors but not to care for a grandparent who is seriously ill? [The FMLA allows workers to take unpaid leave to care only for a child, spouse or parent.]*

A: The recent bipartisan Commission on Leave report shows that the Act has been a tremendous success and has not been the burden to business that its opponents feared. As we expand the Act to cover more circumstances, we want to move cautiously to ensure that it stays that way.

Q: *Why should a worker be guaranteed leave to take their parent to the doctor but not to go to the doctor themselves?*

A: That's a good point, but many people currently can take paid or unpaid sick leave to go to a doctor's appointment.

Q: *How do flex-time and the FMLA expansion interact?*

A: Workers could use their flex-time for purposes allowed under the FMLA so that they would not have to take unpaid leave.

President Clinton Announces New Family-Friendly Workplace Proposals

- ✓ **Expanded Family & Medical Leave**
- ✓ **Employee-Choice Flex-Time**

June 24, 1996

*Nashville Family Reunion Conference Hosted By
Vice President Al Gore*

**PRESIDENT CLINTON ANNOUNCES NEW
FAMILY-FRIENDLY WORKPLACE PROPOSALS:**

- ☐ **EXPANDED FAMILY & MEDICAL LEAVE**
- ☐ **EMPLOYEE-CHOICE FLEX-TIME**

NEW EXPANSION OF FAMILY AND MEDICAL LEAVE: *President Clinton's new proposal would deepen and expand Family Leave by allowing a worker to take unpaid hours off -- with a maximum of 24 hours a year -- for child education, older relatives' health needs, and routine family medical purposes.*

Current Family and Medical Leave Law. The FMLA helps families only with a medical crisis or special limited care-giving needs, such as a birth or adoption. But working families often have to care for children or parents in circumstances for which they cannot use Family and Medical Leave.

New Family And Medical Leave Procedures. FMLA expansion would be limited to 24 hours a year for the following specific purposes:

- **SCHOOL ACTIVITIES.** Participating in school activities directly related to the educational advancement of your child, such as parent-teacher conferences or interviewing for a new school;
- **ROUTINE FAMILY MEDICAL PURPOSES.** Accompanying your child to routine dental or medical appointments, such as annual checkups or vaccinations;
- **OLDER RELATIVES' HEALTH NEEDS.** Accompanying an elderly relative to routine medical appointments or other professional services related to the care of the elderly relative, such as interviewing nursing homes or group homes.

NEW EMPLOYEE-CHOICE FLEX-TIME: *President Clinton's new proposal would offer American workers more choice and flexibility in finding ways both to earn the wages they need to support their families and still find the time they need to be with them. The President's proposal would:*

- **EMPLOYEE CHOICE.** Allows employees to agree with their employers to work overtime in exchange for paid time-off -- flex-time -- with a limit of up to 80 hours. An hour of overtime could thus be used for 1-and-1/2-hours of overtime pay or 1-and-1/2 hours of flex-time.
- **FLEX-TIME FOR ANY PURPOSE WITH 2 WEEKS NOTICE.** Workers could use their earned flex-time for any reason -- as long as they give their employers 2 weeks notice.
- **EMPLOYEES CAN ALWAYS CHOOSE PAY OVER FLEX-TIME.** Workers would maintain the right to choose overtime pay, and even if they choose flex-time, they could still cash out any portion of their flex-time pay with two weeks notice.
- **FLEX-TIME FOR FAMILY LEAVE.** Employees can use their accumulated family flex-time for family leave purposes at any time.

OPPOSE ATTEMPTS TO REDUCE WORKER CHOICE: *In announcing these new family-workplace proposals, President Clinton made clear that he would oppose any bill that allows for coercion and uses phrases like "comp-time" as a cover for giving workers less choice in the workplace.*

**PRESIDENT CLINTON ANNOUNCES NEW
FAMILY-FRIENDLY WORKPLACE PROPOSALS:**

- ☐ **EXPANDED FAMILY & MEDICAL LEAVE**
- ☐ **EMPLOYEE-CHOICE FLEX-TIME**

BACKGROUND MATERIALS

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EXPANDING THE FAMILY AND MEDICAL LEAVE ACT -- TO HELP FAMILIES BALANCE WORK AND FAMILY RESPONSIBILITIES

June 24, 1996

"Family and medical leave is a matter of pure common sense and a matter of common decency. It will provide Americans what they need most: peace of mind. Never again will parents have to fear losing their jobs because of their families."

-- President Clinton at the signing of the Family and Medical Leave Act, February 5, 1993

PRESIDENT CLINTON DELIVERED ON HIS PROMISE TO PROVIDE FAMILY

LEAVE: In his first month in office, President Clinton delivered on his promise and signed the Family and Medical Leave Act of 1993 into law. The law allows workers at businesses with 50 or more employees to take up to 12 weeks of unpaid, job-protected leave to care for a newborn or adopted child, to attend to their own serious health needs, or to care for a seriously ill parent, child or spouse.

NEW BIPARTISAN REPORT SHOWS THE LAW IS WORKING: The recent report on the impact of the law by the bipartisan Commission on Leave -- chaired by Senators Dodd and Craig -- shows that the law is working:

- **67 million Americans -- over half of workers -- are guaranteed they can take leave** from their job to care for a sick relative or a newborn child without fear of losing their job or their health insurance.
- **More than 12 million eligible workers have taken leave since its enactment.**
- **40% of all workers think they will need to take leave for a covered reason** at some time in the next 5 years. The leading reason is to care for a seriously ill parent.
- **Despite opponents' claims, compliance is easy and costs low for most employers:**
 - 9 in 10 employers find the law "very" or "somewhat" easy to administer
 - Compliance entails either little or no costs for 89%-99% of businesses
 - Smaller covered worksites found it easier to comply than the larger sites.
- **Some businesses have reported reduced employee turnover, enhanced productivity** and improved morale which they attribute to the Act.

NOW IT IS TIME TO EXPAND THE LAW TO BETTER HELP WORKERS CARE FOR THEIR CHILDREN AND PARENTS. While the law is a major step forward, it does not cover many situations facing working families. Today, President Clinton proposed expanding the law to cover more family obligations to better help working families care for their children and elderly relatives without sacrificing their work obligations. Under the proposed expansion, workers could take up to 24 hours of leave each year to meet additional specified family obligations, including routine doctors appointments and parent-teacher conferences. Leave could be taken for the following purposes:

- **Participating in school activities** directly related to the educational advancement of your child, such as parent-teacher conferences or interviewing for a new school;
- **Accompanying your child to routine dental or medical appointments**, such as annual checkups or vaccinations;
- **Accompanying an elderly relative to routine medical appointments or other professional services** related to their care, such as interviewing nursing homes or group homes.

PRESIDENT CLINTON'S NEW EMPLOYEE-CHOICE FLEX-TIME PROPOSAL

TODAY, PRESIDENT CLINTON ANNOUNCES A NEW EMPLOYEE-CHOICE FLEX-TIME PROPOSAL. President Clinton's employee-choice flex-time proposal would help to make workplaces more family friendly by ensuring worker flexibility while guarding against abuses by coercive or unstable businesses -- with explicit protections against coercion. President Clinton's proposal would allow more Americans to have the time they need to fulfill their responsibilities as both workers and as parents or grown children of elderly relatives.

- **Workers could agree with their employers to receive extra paid time-off -- "flex-time" -- instead of working overtime for cash pay.** Consistent with existing law, workers would get time-and-a-half in flex-time -- extra paid time-off -- for each hour of overtime. There would be a limit of 80 hours that a worker could accumulate in flex-time. And all additional overtime work -- beyond the limit -- would have to be paid in cash.
- **Employees can choose to use their flex-time for family and medical leave purposes whenever they need it.** At any time, workers can use their flex-time for family and medical leave purposes -- to care for a new born or adopted child, to attend to their own serious health needs, or to care for a seriously ill child, parent, spouse.
- **Workers maintain ultimate control of when to use flex-time, as long as they provide two weeks notice to their employers.** Employees can use flex-time for any purpose as long as the worker gives at least two weeks of notice to his or her employer, or with less notice if the employer's operations are not unduly disrupted. Private-sector employees may elect to cash out their flex-time for cash due as long as two weeks of notice is given to their employer.
- **To protect against abuses by coercive or unstable businesses, the employee-choice flex-time proposal includes explicit protections against coercion.**
 - ▶ **Employees and employers would have a written flex-time agreement.** President Clinton's employee-choice flex-time proposal would also require employees and employers to agree in writing that the worker will receive flex-time -- instead of cash pay -- before the worker performed any overtime work.
 - ▶ **Private-sector workers can get cash for their accumulated flex-time within two weeks of notice.** With two or more weeks of notice, a worker in the private sector can cash out their flex-time for cash due.
 - ▶ **Protecting workers from businesses that go bankrupt.** To ensure workers receive their accumulated flex-time when their employers seek bankruptcy protections, unpaid flex-time would receive special protection -- the same as given to other wages -- in bankruptcy proceedings. For employees in thinly capitalized businesses, additional protections will be included.

► **Additional protections to ensure that worker protections:**

- President Clinton's employee-choice flex-time proposal would not allow unused flex-time to deprive a worker of unemployment compensation that he or she has earned.
- To ensure protections against coercion, part-time, seasonal, and temporary workers would be exempted from this proposal. The Secretary of Labor would also be able to make recommendations to exclude low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse.

► **Ability to collect from violators of overtime laws are improved.** President Clinton's employee-choice flex-time proposal improves the Labor Department's ability to collect fines due from violators of overtime laws, including double damages for certain egregious violations. This proposal also imposes civil money penalties for violations of flex-time and for willful or repeated recordkeeping violations.

PRESIDENT CLINTON WILL STRONGLY OPPOSE ANY BILL THAT REDUCES WORKER CHOICE IN THE WORKPLACE. President Clinton will strongly oppose any bill that allows employers to coerce their employees fails to protect true worker choice and fails to guarantee that workers will receive the compensation they are due.

**COMPARISON OF PRESIDENT CLINTON'S EMPLOYEE-CHOICE FLEX-TIME PROPOSAL
AND
REPRESENTATIVE BALLENGER'S COMP-TIME PROPOSAL**

	PRESIDENT CLINTON'S EMPLOYEE-CHOICE FLEX-TIME PROPOSAL	REPRESENTATIVE BALLENGER'S COMP-TIME PROPOSAL
WRITTEN AGREEMENT	To provide true employee choice, employees and employers must agree in writing that compensation will be provided as flex-time rather than as overtime wages.	No written agreement is necessary -- only an understanding.
FLEX-TIME FOR FAMILY AND MEDICAL LEAVE PURPOSES	Employees may use flex-time for family and medical leave whenever they need it.	No comparable provision.
USE OF FLEX-TIME	Employees maintain ultimate control of when to use flex-time, as long as they provide two weeks notice to their employers. Workers can use flex-time for any other purpose as long as they provide two or more weeks of notice. They receive flex-time with less notice, but only if the employer is not unduly disrupted.	Employers maintain ultimate control of when to grant their workers flex-time. Regardless of the amount of notice the worker provides, employers can deny use of comp-time if the firm claims they would be "unduly disrupted."
PAYOUT OF FLEX-TIME	Private-sector employees may elect to cash out their flex-time for cash due with at least two weeks of notice to their employer.	Rather than ensuring payout within two weeks as the President's proposal, private-sector employers would have up to 30 days to payout the cash due for accumulated flex-time.
FLEX-TIME BANK	Private-sector workers can accumulate flex-time for overtime worked (at a rate of time and a half) in a "Flex-time Bank." There would be a limit of 80 hours that a worker could accumulate in flex-time. All additional overtime work must be compensated in cash.	Employees can accumulate up to 240 hours of comp-time.

BANKRUPTCY PROTECTION	To ensure workers receive their flex-time when firms enter into bankruptcy, unpaid flex-time would receive special protection -- the same as given to wages -- in bankruptcy proceedings. For employees in thinly capitalized businesses, additional protections will be included.	No comparable provisions.
ENFORCEMENT PROVISIONS	Improves remedies against violators, including double damages for overtime that an employee would have earned, but was not permitted to work because the worker wanted to earn pay rather than flex-time. Civil money penalties for violations of flex-time and for willful or repeated recordkeeping violations.	Double damages only for willful violations of anti-coercion provisions. Civil money penalties only for willful violations.
TREATMENT OF FLEX-TIME AS WAGES AND HOURS WORKED	Unused flex-time cannot be used to deprive a worker of unemployment compensation that he or she has earned. Flex-time pay-outs are treated as wages for health and pension benefit plans. Flex-time used is also treated as hours worked for overtime accrual purposes.	No comparable provisions on unemployment compensation or benefit plans. Comp-time used is not treated as hours worked.
EXEMPTIONS FOR VULNERABLE SECTORS	To ensure protections against coercion, part-time, seasonal, and temporary workers would be exempted from this proposal. The Secretary of Labor would also be able to make recommendations to exclude low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse.	No comparable provisions.
SUNSET	Flex-time provision expires in four years. Bipartisan Commission will study and report to the Secretary of Labor and Congress prior to sunset.	No comparable provision.

HOW THE PRESIDENT'S FAMILY-FRIENDLY PROPOSALS WOULD AFFECT TYPICAL FAMILIES

NOTE: These hypothetical examples illustrate how the President's proposal compares with current law and the Ballenger bill to create "comp-time." All of these examples assume the adoption of some proposal allowing the accumulation of flex-time or "comp-time" in lieu of time-and-one-half pay for overtime.

1. **Expanded Family And Medical Leave For Child Education Purposes.** Jane Smith works for XYZ Inc. She has a conference scheduled with her daughter's teacher for three weeks from today and needs four hours of time off to travel to and from the school and meet with the teacher. Jane is willing to take unpaid leave.

- ✓ Under the President's proposal, Jane can take unpaid leave to attend the parent-teacher conference.
- ☒ Under current law, Jane is not assured she can take unpaid leave to attend the parent-teacher conference.
- ☒ Under the Ballenger bill, Jane is not assured she can take unpaid leave to attend the parent-teacher conference.

2. **Expanded Family And Medical Leave For Caring For Older Relative.** While Jane Smith is tending to her daughter's educational needs, Jane's husband John needs to help move his grandfather from one nursing home to another. John will need 4 hours time-off in order to do this. Because he is very involved with his family, John has not worked any overtime this year and does not have any accumulated flex-time. Thus, he would like to use unpaid family and medical leave to take his grandfather to the doctor.

- ✓ Under the President's proposal, John can take unpaid family and medical leave to move his grandfather from one nursing home to another.
- ☒ Under current law, John cannot use family and medical leave to help move his grandfather from one nursing home to another.
- ☒ Under the Ballenger bill, John cannot use family and medical leave to help move his grandfather from one nursing home to another.

3. **Employer-Imposed "Comp-Time."** Bill Johnson and his family live on a very tight budget. The time-and-one-half pay Bill receives for the 10 hours of overtime he works each month provides just enough money to pay the mortgage on his family's house. In his latest paycheck, Bill's employer inexplicably did not include any pay for his overtime work. When Bill complains, his boss explains that this is the new "comp-time" program and from now on Bill will get extra time off in return for his overtime. Bill fears he will not be able to make ends meet. He doesn't remember agreeing to accept "comp-time."

- ✓ Under the President's proposal, Bill and his employer would have to have agreed in writing prior to the overtime that he would accept flex-time instead of time-and-one-half pay. Otherwise, Bill must be paid his time-and-one-half in cash.
- ✓ Under current law, Bill would have to be paid time-and-one-half in cash for the overtime he worked.
- ☒ Under the Ballenger bill, the employer could say that he had a verbal agreement with Bill to give him "comp-time." That makes it Bill's word against his employer's word.

4. **Flex-Time For Planned Family Needs.** Ann's husband Bill has a heart condition and will require heart surgery within the next few weeks. Ann wants to spend time with Bill after the surgery to help care for him. Her family's growing financial worries make it vital that Ann be able to use her accumulated flex-time to be with her husband without losing a day's pay. Ann and Bill scheduled the surgery three weeks in advance and Ann gave her employer two-weeks notice. Two days before the surgery, Ann's employer ZYX Co. decides to change their production schedule. In their view, Ann's absence will "unduly disrupt" the workplace operations.

- ✓ Under the President's proposal, Ann can use her accumulated flex-time to be with her husband without losing pay -- as long as she gives two-weeks notice.
- ☒ Under current law, Ann is assured only of unpaid family and medical leave time.
- ☒ Under the Ballenger bill, Ann cannot use her accumulated "comp time" if it will "unduly disrupt" her employer's operations. ZYX Co. can force her to take unpaid leave to be with her husband in the hospital.

5. **Protection of Unemployment Benefits.** Al Jones is a construction worker who got laid off from Builders Inc. after it finished its latest project. He worked enough overtime to accumulate 80 hours of accrued flex-time. Now, he wants to collect the unemployment benefits he usually gets when his employer lays him off. This time, however, Builders Inc. challenged Al's eligibility for unemployment insurance on the grounds that he is still "working" because he is getting paid for his accumulated flextime.

- ✓ Under the President's proposal, Al is explicitly protected from this type of challenge. If he's otherwise eligible, Al should get his unemployment insurance.
- ☒ Under the Ballenger bill, Al is not explicitly protected from this challenge to his unemployment insurance eligibility.

Clinton Presidential Records Digital Records Marker

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PENSION PROPOSAL

Divider Title: _____

MEETING AMERICA'S CHALLENGES ON RETIREMENT SAVINGS AND SECURITY

April 11, 1996

"I challenge every business that can possibly afford it to provide pensions for your employees. And I challenge Congress to...make it easier for small businesses and farmers to establish their own pension plans. That is something we should all agree on."

— President Clinton, State of the Union, 1/23/96

Putting the Economy Back on Track & Fighting For Protections For Working Families. President Clinton fought for an economic growth agenda to put our economy back on track and ensure that more and more Americans have the economic security and opportunities they need to live the American Dream. President Clinton's economic agenda has clearly helped turn the economy around.

- **In 1992**, the deficit was \$290 billion -- the highest dollar level in history; the unemployment rate was above 7% during every month; and the economy had suffered the worst job growth of any President since Hoover.
- **Today.** Thanks to the 1993 economic plan the Democrats in Congress joined President Clinton in passing -- without a single Republican vote -- the deficit has been cut in half; our economy has created 8.5 million new jobs; unemployment is down to 5.6%; real average hourly earnings have increased for the first time in a nearly a decade; and the combined unemployment, inflation, and mortgage rates are at their lowest level in 27 years.

Helping Working Families With The Changes of an Age of Possibility. The economy has improved and we have halted the decade-long slide in real hourly earnings, but we still face the challenge of making sure that this new economy with all of its opportunities doesn't leave any working families behind. Part of our challenge is to help working families be the winners -- not the victims -- of change, by increasing access to training, pensions and health care as they make the transition between jobs. That's why President Clinton supports education (\$10,000 tuition tax deduction); rewarding work (Earned Income Tax Credit); worker training (*GI Bill for America's Workers*); access to health care (the bipartisan *Kassebaum-Kennedy Health Insurance Reforms*); and pension expansion, portability, and protections (the *Retirement Savings and Security Act*).

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT. Give more Americans the power to save for their retirement by expanding pension coverage, portability, and security:

- **Expands Pensions** to help the 51 million working Americans -- nearly half of private-sector workers - - not currently covered by an employer-provided plan save for their retirement.
- **Increases Portability** by removing the obstacle course facing many workers when they change or lose their job and want to bring their retirement savings with them and keep saving.
- **Enhances Protections** so hard-working Americans do not have to worry whether their retirement savings will be there when they need them.

President Clinton Stands Up To Republican Raids On Workers' Pensions. President Clinton vetoed the misguided Republican budget which gave corporations a new opportunity to raid over \$15 billion from pension funds that could have affected the pensions of nearly 4 million workers and retirees in 6,000 plans over the next 5 years. "Congress should not now let companies endanger those workers's pension funds. I vetoed that proposal last year, and I would have to do so again." -- President Clinton, State of the Union, 1/23/96.

President Clinton Balances The Budget In A Way That Protects America's Values and Helps Working Families. President Clinton's budget balances in 7 years by cutting wasteful spending while increasing investments in education, life-long learning, technology, health insurance for laid-off workers, and retirement savings and security to help working families today and tomorrow.

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT

Proposal Summary

Millions of Americans do not have adequate retirement savings and are worried about their retirement and being a burden on their children. The President's Retirement Savings and Security Act would empower more Americans to save for their retirement by expanding pension coverage, portability, and protections.

- **Expands Pensions** to help the 51 million working Americans -- nearly half of private-sector workers -- not currently covered by an employer-provided plan save for their retirement.
- **Increases Portability** by removing the obstacle course facing many workers when they change or lose their job and want to bring their retirement savings with them and keep saving.
- **Enhances Protections** so hard-working Americans do not have to worry whether their retirement savings will be there when they need them.

PRESIDENT CLINTON'S PROPOSAL MEETS THESE CHALLENGES WITH A 5-PART PLAN:

1. **New Small Business 401(k) Plan -- To Expand Pension Coverage:** The lack of a simple pension plan for small businesses has led to a disturbing statistic: while 76% of workers in large businesses have employer-provided pensions, only 24% of workers in small businesses do. The President's plan offers small businesses a simple small business "401(k) plan," called the NEST, that could expand pension coverage to up to *10 million workers*:
 - **\$5,000 Tax-Free Contributions.** Workers could save up to \$5,000 a year tax-free through automatic payroll deductions.
 - **Employers Contribute 3% of Salary or 1% Plus a Match of Up To 5% of Salary.**
 - **One-Page Form.** Cuts through the red tape with a simple, one-page form without complicated employer filing, calculations, or testing.
 - **100% Portable.** All contributions would be immediately vested and fully portable.

The President's plan expands coverage in many other ways as well: it simplifies 401(k) plans for *all* businesses as recommended by Vice President Gore's Reinventing Government initiative, makes the 9 million employees of non-profit organizations eligible for 401(k) plans, enables relatives who work in a family business to earn their own retirement benefits, and repeals unreasonable limits on benefits for certain disabled and low- and middle-income union and state and local government employees.

2. **Expanded IRAs -- To Increase Pension Coverage and Portability:** Deductible IRAs are generally available only to families making under \$50,000, and can be withdrawn penalty-free only after age 59½. The President's proposal makes IRAs more attractive and expands eligibility to *20 million more families*:
 - **Allows Withdrawals for Education and Training, First Home Purchases, Major Medical Expenses, and During Long-Term Unemployment:** Allows penalty-free IRA withdrawals for these major life expenses to encourage more families to save.
 - **Doubles Income Eligibility:** More middle class families -- especially those with two earners -- would be eligible for this expanded IRA that reduces taxes by up to \$1,120 a year. The proposal doubles the income limits from \$50,000 to \$100,000 for married couples, and from \$35,000 to \$70,000 for single taxpayers.

3. **Increases Pension Portability:** Workers who change jobs and want to take their retirement savings with them and keep saving currently face a multi-faceted obstacle course. The President's proposals could help *over 5 million workers each year* who have an employer pension plan and change jobs:
- **Takes Away 1-Year Wait To Save At a New Job:** Millions of workers are forced to wait 1 year before they can enter their new employer's pension plan. The President's proposal changes a law that encourages private employers to impose a 1-year waiting requirement, and eliminates the waiting period for new federal employees to make pre-tax contributions to the Thrift Savings Plan.
 - **Green Light for Employers to Accept Rollovers:** Today, 50% of workers in 401(k) plans are in plans that do not accept rollovers from new employees. The Treasury will issue new rules to make it easier for employers to accept rollovers into their plans.
 - **Expanded IRAs and New Small Business 401(k) Plan Will Increase Portability:** Expanded IRAs and the new small business 401(k) plan are both fully portable.
 - **Ensures that Workers Receive Benefits After They Change Jobs or the Employer Folds:** Ensures workers get the benefits they earned, even if they have long since left the job or the employer is no longer in business, by using the PBGC as a clearinghouse for terminated plans.
 - **Secures Portability for Veterans:** Changes tax rules to ensure that veterans who serve their nation are not penalized and can continue their pension coverage when they return from service.
 - **Guarantees Benefits for Workers on the Move:** Reduces the vesting period from 10 to 5 years for multiemployer plans -- which cover union workers such as construction workers who frequently change jobs -- to ensure they don't lose their benefits if they've worked for 5 years.
- Enhances Pension Protection and Security:** The President's proposal enacted in 1994 has reduced pension underfunding for the first time in a decade, protecting the benefits of 40 million workers and retirees in traditional pension plans. In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering over \$7 million for approximately 9,000 workers.
- **Requires Prompt Action on Misuse of Funds:** Requires plan administrators and accountants to report promptly serious misuse of pension funds, with fines of up to \$100,000.
 - **Protects Government Employees' Savings from Orange County-Style Fiascos:** Requires state and local government pension plans be held in trust so that employees do not lose their savings if the government declares bankruptcy, as Orange County recently did.
 - **Strengthens Protection of 9 Million Union Workers' Savings:** Doubles the maximum level of annual benefits guaranteed under multiemployer plans from \$5,850 per worker -- the level set in 1980 -- to \$12,870 per worker.
5. **Prevents Pension Raiding:** In the 1980s, companies raided more than \$20 billion from over 2,000 pension plans covering 2.5 million workers and retirees. Legislation in 1990 curbed pension raiding by imposing a stiff excise tax of up to 50% on these pension reversions.
- **Oppose Proposals that Allow Corporate Pension Raids:** The Administration will continue to oppose any legislation that encourages pension reversions, such as the one in the GOP budget.
 - **Report on Pension Reversions:** To ensure that current rules continue to prevent the abuse common in the 1980s, requires the Labor Department to report regularly on activity in this area.

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT

- 1. NEW SMALL BUSINESS 401(k)
PLAN**
- 2. EXPANDED IRAs**
- 3. INCREASED PENSION
PORTABILITY**
- 4. ENHANCED PENSION
SECURITY**
- 5. PREVENT PENSION RAIDING**

April 11, 1996

**Two Page Summary of President Clinton's
Retirement Savings and Security Act**

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT

Proposal Summary

Millions of Americans do not have adequate retirement savings and are worried about their retirement and being a burden on their children. The President's Retirement Savings and Security Act would empower more Americans to save for their retirement by expanding pension coverage, portability, and protections.

- **Expands Pensions** to help the 51 million working Americans -- nearly half of private-sector workers -- not currently covered by an employer-provided plan save for their retirement.
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BACKGROUND MATERIALS

Pages

★ Background Summaries of Each of the Five Key Areas:

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| • Portability Reforms | 8-10 |
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★ Clinton Administration Progress on Retirement Savings and Security

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★ Illustrative Examples of the Impact of the President's Proposal on Families and Individuals.

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BACKGROUND:
New Small Business 401(k) Plan

**PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT:
EXPANDING PENSION COVERAGE**

Millions of Americans Do Not Have a Pension Plan and Are Worried About Retirement. Even with Social Security, a couple earning \$50,000 a year needs to have saved about \$225,000 by retirement to maintain their standard of living over a 25-year retirement. Yet 51 million workers are not covered by an employer pension plan and millions are not saving on their own.

- **Half Do Not Have a Pension.** 48% of private sector workers -- 51 million Americans -- are *not* covered by an employer-provided retirement plan. Even fewer workers in small businesses are covered. Three-quarters of workers in small businesses with fewer than 100 employees are not covered by an employer retirement plan.
- **Wary of Contributing to an IRA.** Many Americans are not currently eligible for tax-deductible IRAs, and many of those who are eligible are reluctant to make contributions because they may need the funds to pay for their children's education, to buy their first home, or to support their family if they lose their job and can't find a new one.

The President's Proposal Would Expand Coverage and Empower Workers to Save for Retirement.

1. **Creates a Small Business "401(k)" Retirement Plan To Expand Pension Coverage For Up To 10 Million Workers In Small Businesses.** The complexity and cost of traditional retirement plans discourages many small businesses from providing their workers with pensions. Even those existing plans designed for small business -- SEPs and SARSEP -- are complicated, and don't give low- and moderate-income workers adequate incentives to save for their retirement. As a result, only 1 of every 4 workers at a small business with under 100 employees is covered by an employer retirement plan. By contrast, 3 out of every 4 workers in firms with 1,000 or more employees are covered.

The President's proposal, developed as part of Vice President Gore's Reinventing Government initiative, creates a new simple, voluntary "401(k)" retirement plan for small businesses with up to 100 employees, called the National Employee Savings Trust (NEST). This plan would make it easy for a small business to offer a generous retirement plan. *As many as 10 million small business workers could gain pension coverage under this plan:*

- **One-Page Form.** This new small business 401(k) plan would cut through red tape with a simple, one-page form. It has no complicated employer filing, calculation or testing requirements. It also simplifies administration by allowing employers to deposit contributions for all employees in IRAs at a single financial institution, rather than having to send payments to many institutions.

- **Workers Could Contribute Up to \$5,000 Tax-Free.** And unlike an IRA, they could do it automatically through regular paycheck deductions. All workers who are at least 21 years old and who have earned at least \$5,000 from the employer for two consecutive years would be eligible to contribute.
- **Employer Contributions.** Employers who choose to offer this new small business plan would contribute 3% of an employee's pay or would contribute 1% of pay plus a generous match of up to 5% of the employee's pay. The match would be 100% on the first 3% of pay and at least 50% on the next 2% of pay.
 - For example, a worker who earns \$60,000 and contributed \$5,000 would get an employer contribution of up to \$3,000 under the matching plan.
 - A worker who earns \$40,000 and contributed \$2,000, would receive an employer contribution up to \$2,000 under the matching plan.
- **100% Portable.** All contributions would be immediately vested (nonforfeitable) and fully portable. New employees could rollover their existing retirement savings from a qualified plan into their small business 401(k) NEST, and workers leaving the employer could transfer their NEST savings into an IRA.

2. **Makes It Easier for All Employers to Provide Their Employees with Pensions.** Current pension tax rules are complicated, discouraging employers of all sizes from offering retirement plans. The President's plan simplifies these rules, eliminating unnecessary tests and limits to make it easier for more employers to provide retirement plans and making it easier for workers to save.

- **Simplifies 401(k) Plans to Reduce Costs.** 401(k) plans are individual account plans that permit an individual to deduct a portion of his or her pre-tax income every year, invest it, and pay no taxes on the money until it is withdrawn at retirement. The employee's contribution is frequently matched by the employer, and the employee often can direct the investment of the assets.

However, many employers are discouraged from offering 401(k) plans by the current 401(k) rules that require plan sponsors to engage in complicated and sometimes costly testing of plans annually to determine whether lower income workers are receiving their fair share of benefits. The President's proposal, developed as part of Vice President Gore's Reinventing Government initiative, would replace this complicated testing with simple "safe harbors" that enable all workers to receive employer contributions to their 401(k) plan, while still assuring that lower income employees are covered.

- **Lets Non-Profit Organizations Offer 401(k) Plans.** The President's proposal would allow all tax-exempt organizations to sponsor 401(k) plans for their employees, instead of the more limited plans now available to them. Non-profit organizations employ nearly 9 million people who could be provided 401(k) plans.

- **Enables Family Members in Family Businesses to Earn Their Own Retirement Benefits.** The proposal eliminates the "family aggregation" restrictions on pensions for family members so that spouses and children who work in the same or related businesses can earn their own retirement benefits.
- **Provides Workers, Such as Teachers, Disabled Police Officers, and Construction Workers, With the Benefits They Deserve.** Current tax laws limit pension benefits for union members in multiemployer plans and state and local government employees to the average salary in their three highest consecutive salary years. This unfairly and significantly reduces the benefits of disabled workers, such as police officers and fire fighters disabled early in their careers, of union workers in cyclical industries in which wages may vary widely from year to year, and of lower-income, long-term government employees, such as teachers and janitors.

The President's proposal would change the law to eliminate these unreasonable limits on the benefits these workers earned.

- **Changes Rules that Prevent Middle-Income Americans from Saving More.** The proposal replaces the current seven-part definition of "highly compensated employee" with a simple new rule that will make larger benefits available to more middle-income Americans and simplify administration of the retirement plans.

3. **Simplifies Pension Rules, Directing Savings to Retirees Rather than Accountants.**

The President's pension package would also simplify the pension system and reduce the administrative costs of maintaining retirement plans for all employers through a variety of proposals, including:

- Repealing the requirement that people begin receiving pension distributions at age 70 1/2 even if they are still working.
- Allowing more small defined contribution plans by exempting these plans from the 50 employee minimum participation rule.
- Allowing workers to get more benefits by simplifying the calculation of compensation-based limits on benefits.
- Eliminating the complex combined limit on benefits and contributions for employees covered by both defined benefit and defined contribution plans of the same employer.

BACKGROUND:
Expanded IRAs

**PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT:
EXPANDED IRAs TO INCREASE COVERAGE AND PORTABILITY**

IRAs Are the Most Portable Retirement Savings Vehicle: With the average worker now changing jobs several times during their careers, it is important that workers be able to bring their retirement savings with them when they change jobs and to keep on saving from one job to the next. Because IRA accounts are 100% portable and contributions are made by individual workers regardless of their employers, IRAs are especially important to workers changing jobs.

Yet Many Cannot Make Deductible Contributions or Are Discouraged from Making Them: Yet today millions of Americans are not eligible to make tax-deductible contributions to an IRA. Others who are eligible are reluctant to do so because they worry that they will need the money before they retire -- to buy a home, pay for their children's college education or their parents' nursing home care, or to support their family if they lose their job -- and will not be able to get access to it.

Problem: **Many Cannot Make Deductible Contributions Because of Restrictive Income Limits.** Deductible IRAs are currently available only to families with incomes under \$50,000 or who are not covered by an employer-provided pension plan. Eligibility for deductible IRAs is currently phased-out for single taxpayers with incomes between \$25,000 and \$35,000, and for married couples with incomes between \$40,000 and \$50,000.

Proposal: **The President's proposal expands eligibility to 20 million more families:**

- **Doubles the income limits -- making 20 million more families eligible:** The President's proposal doubles the income limits, making more middle class families -- especially those with two incomes -- eligible for this expanded IRA. It doubles the income limits for making tax-deductible IRA contributions from \$50,000 to \$100,000 for married couples, and from \$35,000 to \$70,000 for single taxpayers. It indexes these thresholds as well as the \$2,000 maximum annual contribution amount, for inflation.
- **Expansion of IRAs can help part-year employees.** Among those who would be helped by the higher income limits are those workers who move from one job to another and are covered by an employer-provided pension for only part of the year. Because these workers are covered by a plan for part of the year, they are subject to the IRA income limits, even though they may not have the opportunity to save through an employer plan for most of the year. The higher income limits for tax-deductible IRAs will enable more middle-income workers who change jobs to save.
- **Gives people a choice.** The President's proposal would give eligible taxpayers the choice of contributing to a traditional tax-deductible IRA or to a new Special IRA, to which contributions would not be tax-deductible but earnings could be withdrawn tax-free after at least 5 years.

Problem: **Penalties for early withdrawals discourage many from saving.** Under current law, IRA savings can be withdrawn penalty-free only after age 59 1/2. Before age 59 1/2, withdrawals generally are subject to a 10% penalty tax.

Proposal: **The President's proposal makes IRAs more attractive by allowing early withdrawals for education, first home purchases, major medical expenses and during long-term unemployment.** To encourage saving, the President's proposal would allow penalty-free withdrawals for major life expenses, such as education and training, first-time home purchases, and financially devastating medical expenses such as nursing home care for a parent. This proposal was first pioneered by former Treasury Secretary Lloyd Bentsen in the Senate in the 1980s, who cosponsored this bipartisan legislation with Senator William Roth (R-DE). The President first proposed this expanded IRA in 1994 as part of the Middle Class Bill of Rights, and has included it in every Administration budget since then.

- **Allows IRA investment in education of workers and their children.** To promote the education needed in the new economy, the President's proposal would allow penalty-free withdrawals for the education of workers and their families and would permit investment of IRA funds in State pre-paid tuition programs.
- **Provides access to retirement funds for workers in transition.** The President's proposal provides a financial safety net for workers in transition by eliminating the 10% penalty tax on early IRA withdrawals for workers who are unemployed and receive unemployment compensation for 12 weeks or more, allowing workers to use retirement savings to pay for expenses during these periods of transition.

BACKGROUND: Portability Reforms

**PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT:
INCREASING PENSION PORTABILITY**

About 35 million Americans have retirement accounts in defined contribution plans, such as 401(k) plans, in which employers maintain individual accounts on behalf of their workers. In the last decade, the number of defined contribution plans has exploded. By 1991, defined contribution plans accounted for 86 percent of employer-provided retirement plans and covered 55 percent of workers covered by plans. With the average worker now changing jobs many times during their career, defined contribution plans enable workers to keep their savings as they change jobs because the account balances belong to the workers. However, the 5 million workers who change jobs each year and who participate in retirement savings plans may still face *an obstacle course* if they want to take their savings with them and continue to save.

Problem: Starting a new job is often the best time to begin saving, but many workers are forced to wait a year or more after starting a new job to begin saving through the new employer's retirement plan. Currently, many plans do not permit workers to make 401(k) contributions or receive employer matching contributions until they have worked for the employer for at least a year. Some employers require the waiting period because they are concerned that allowing new employees to participate could cause the plan to fail "discrimination" tests that compare benefits provided to high-paid employees with benefits provided to other employees. But because of waiting periods, workers may not get into, or may lose, the habit of saving for retirement through payroll deduction.

Proposal: President Clinton's plan would help workers save from the first day on the job by encouraging employers to eliminate waiting periods. The proposal would encourage employers to allow new hires to participate in retirement plans by excluding non-highly paid new employees from the nondiscrimination tests.

But reform must start at home. The President's plan would allow new federal government employees to begin saving for retirement from their first day on the job. It would permit new federal employees to begin making pre-tax contributions to the Thrift Savings Plan when they are hired, rather than having to wait six months to one year.

Problem: **Employees with retirement savings plans and who change jobs often want to take their accounts with them when they leave, so they can continue to add to them to save for retirement.** While rollovers of retirement payments to IRAs are fairly routine, opportunities to roll payments over into new employer plans are limited because many plans don't accept these rollovers. Only about 50% of participants in 401(k) plans are in plans that accept rollovers from previous employers. Some employers don't take rollovers because they fear that it will require special contributions for the new hires, or that their plan may be heavily penalized or disqualified for inadvertently accepting funds ineligible for rollovers.

Proposal: **President Clinton's plan will increase opportunities for workers to roll over their retirement savings to their new employer's plan.** The proposal will ensure that inadvertent errors in determining whether an amount was eligible for a rollover would not disqualify the plan that accepted the rollover, and that acceptance of rollovers from new hires who are not yet eligible for contributions under the plan will not adversely affect the plan's nondiscrimination tests or impose additional contribution requirements.

These changes build on recent administrative efforts to make it easier for workers to move their funds when they switch jobs, such as recently issued rules that allow workers to waive a 30-day waiting period if they know they want to move the funds sooner. The rules also make it easier to apply statutory rights allowing workers to roll over their account balances directly to another retirement plan (or an IRA) and clarify the rules for borrowing money from a plan.

Problem: **Workers and employers -- particularly small businesses -- need simple retirement savings options that encourage workers to keep saving even when traditional pension plans are too complex or expensive.** Currently, only about one-fourth of employees who work for small businesses have retirement savings plans, and only some of the employees eligible to make tax-deductible IRA contributions take advantage of this savings opportunity. Yet IRAs and IRA-based employer-sponsored plans are fully portable and easy to move, and are especially valuable for younger workers who may frequently change jobs.

Proposal: **The President's plan would make 20 million more families eligible for IRAs, make IRAs available for job-related uses such as training, and offer small businesses a new, simple "401(k)" plan that is fully portable.**

- Expands the availability of tax-deductible IRAs to middle-income workers, including those unemployed for part of a year or move from one job to another and are covered by a pension plan for only part of a year.
- Permits an employee to tap retirement savings, without the 10 percent early withdrawal penalty tax, for education and training, first home purchases, major medical expenses, or support during extended unemployment.
- Creates a new small business "401(k)" plan called the National Employee Savings Trust (NEST) -- a new fully-portable voluntary retirement savings plan for small business that has no red tape and no complicated employer filing, testing, forms or calculations.

Problem: **Retiring workers need to be able to tap all their vested retirement savings at each of their jobs.** Every year, about 5 million American workers covered by pension plans change jobs. Many of them leave their retirement accounts with their old employer. But if the old employer terminates the plan, and moves, changes its name, or folds, it is hard for employees to find their savings at retirement. The Retirement Protection Act helps workers find their benefits under traditional pension plans, but not defined contribution plans.

Proposal: **The President's proposal will help workers locate retirement savings in defined contribution plans when they retire, even if the company they worked for has moved or gone out of business.** The proposal makes the PBGC's "missing participant" program, now in effect for traditional defined benefit pension plans, available to defined contribution plans, such as 401(k) plans. Workers will be able to find their benefits through the PBGC because employers terminating their defined contribution plans will be able to transfer funds and the names of participants to the PBGC, or provide the PBGC with information on where the funds are located.

Problem: **Veterans serving their country need to be able to continue their retirement savings when they return to their former jobs.** Congress enacted legislation in 1994 requiring employers to allow returning veterans to continue in pension plans and make up for contributions they could have made while in the service. However, conforming tax law changes were not made, and will generate confusion and potential problems when the law becomes effective in 1997.

Proposal: **President Clinton's plan will help returning veterans by enacting tax rule changes that ensure that veterans get their benefits under the new law.**

Problem: **Many union workers who are in jobs that traditionally involve working for many employers, such as construction workers, now have to wait 10 years before their pension benefits are guaranteed.** Multiemployer plans, which cover 8.7 million workers, are extremely portable. Workers move from employer to employer and from job to job while remaining covered by a single pension plan. However, under current law, a worker must be in the plan for 10 years before being guaranteed benefits.

Proposal: **President Clinton's plan would ensure that employees in multiemployer collectively bargained plans who work for 5 years would get benefits -- *over 1 million workers will become vested immediately.***

BACKGROUND:
Pensions Security

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT: ENHANCING PENSION SECURITY

President Clinton's Retirement Savings and Security Act builds on the Administration's accomplishments in enhancing pension security to make sure that workers' savings are there when needed. The Administration's **Retirement Protection Act** signed into law in 1994 has reduced pension underfunding for the first time in a decade, protecting the benefits of over 40 million workers and retirees in traditional pension plans. In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering over \$7 million for 9,000 workers. *But more needs to be done.*

Problem: We need to do a better job of protecting the savings of the 22 million participants in 401(k) plans. While the vast majority of 401(k) plans are administered honestly, responsibly, and safely, investigators have found that some employers are using or "borrowing" their employees' contributions. Employees lose earnings on borrowed contributions; and in some cases, the "borrowed" contributions have simply been stolen from the employees.

Actions: Labor Department enforcement efforts are increasing 401(k) security. In 1995, the Labor Department launched a nationwide enforcement effort in response to an increasing number of complaints about 401(k) plans. Over 650 investigations have been opened, with over \$7 million returned to plans covering 9,000 workers. In addition to these civil cases, to date 35 criminal cases have resulted in the criminal prosecution of 2 companies and 9 individuals. Already there have been 4 guilty pleas, resulting in almost \$100,000 being returned to employees. The Department's enforcement program continues to receive and investigate complaints.

New rules will ensure that employee savings are protected. To reduce both incentives and opportunities to "borrow" 401(k) savings, the Labor Department has proposed regulations requiring that these savings be transmitted to plan trustees sooner.

The Voluntary Payback Program encourages employers to restore any delinquent contributions. This program, announced in March, allows employers who agree to restore all delinquent employee contributions plus lost earnings to their plan within six months to avoid civil and criminal sanctions. Those engaged in the most egregious conduct will not be able to take advantage of the program.

Proposal: President Clinton's Retirement Savings and Security Act would further enhance 401(k) security by proposing faster reporting of problems and more complete audits. Plan administrators and auditors are critical to maintaining the security of money in pension plans. Yet under current law, even if a significant problem is discovered, there is no requirement to report the problem until the plan's annual report is filed -- frequently more than a year after the event took place. And audits can be of "limited scope," which excludes assets held by regulated institutions, such as banks.

- **Faster reporting.** The bill would require both plan administrators and accountants auditing plans who discover fraud or other egregious ERISA violations to report them to the Department of Labor promptly. Plan administrators who fail to comply with this requirement may be subject to fines of up to \$100,000. Plan accountants, who in many respects are the first line of defense against fraud, will be subject to sanctions if they fail to report such offenses.
- **Broader audits.** The bill would eliminate the limited scope audit option, meaning that every dollar of savings will be required to be accounted for in a plan audit. Accountants would use existing information from financial institutions and would not be required to duplicate this work.

Problem: We need to enhance the security of the 8.7 million participants in **multiemployer pension plans.** The level of benefits guaranteed by the Pension Benefit Guaranty Corporation for a multiemployer plan has not increased since 1980. The current guarantee is a maximum of \$5,850 annually, which falls below the promised benefit level in almost every case. The guarantee is essential to protecting all workers in these plans, especially the 1.9 million workers in underfunded plans.

Proposal: **President Clinton's Retirement Savings and Security Act would more than double the guarantee level for multiemployer plans.** The proposal would increase the annual guarantee level to account for inflation since 1980. The maximum annual guarantee for a retiree with 30 years of service will increase from \$5,850 to \$12,870.

- **More benefits guaranteed.** With the new guarantee level, three-quarters of all plan participants in future insolvencies of multiemployer plans would have 100% of their benefit guaranteed.
- **Solvency of system maintained.** The proposal would restore the value of the multiemployer guarantee to its original level, while maintaining the program's financial solvency and without raising premiums.

Problem: We need to make certain the retirement savings of public workers are secure. A municipal bankruptcy, such as occurred in Orange County, CA, can put the retirement savings of public workers in jeopardy. When Orange County declared bankruptcy, the retirement savings of thousands of workers were put within the potential reach of the county's creditors. Unfortunately, municipal bankruptcies, while rare, do occur; public workers who participate in state and local government deferred compensation plans deserve to know that their savings will not be taken to pay for the errors of their employers.

Proposal: **President Clinton's retirement savings and security plan would require the savings of workers under state and local government plans to be held in trust.** The President's proposal would require that all retirement savings of state and local government employees be held in trust, protected from misuse and from the government's creditors.

- **Safety of savings guaranteed.** Over 1 million state and local government employees participate in deferred compensation plans. Their savings, unlike funds in regular 401(k) plans, are not held in trust and are subject to employer misuse, being restricted or taken by creditors in bankruptcy. Under the President's proposal, these savings will have to be held in trust; no longer will municipal and state employees have to be concerned that their individual retirement savings -- which increasingly are being used to supplement traditional pension plans -- could be wiped out by their employer's insolvency.

BACKGROUND:
Preventing Pension Raiding

PRESIDENT CLINTON'S RETIREMENT SAVINGS AND SECURITY ACT: *PREVENTING PENSION RAIDING*

Pension Raiding Has a Long and Unfortunate History. During the 1980s, when pension assets grew with a rising stock market, companies took over \$20 billion from over 2,000 pension plans covering 2.5 million workers and retirees. In many cases, companies took money from an "overfunded" plan while allowing significant underfunding in another plan. In other cases, the same plan from which money was taken is now significantly underfunded. One company took \$232 million from a pension plan in 1986; that plan is now underfunded by \$27 million, putting the pension benefits of participants in jeopardy. Another company took \$120 million from a plan now underfunded by \$72 million. Just this year, a Pennsylvania steelmaker that had taken over \$4 million from its plan for white collar workers and executives in 1986 went out of business and terminated its steelworkers plan with almost \$4 million in underfunding.

Current Law Has Virtually Stopped Pension Raiding. In 1990, Congress responded to the reversion crisis by enacting a 50% excise tax which companies must pay if they wish to take money from a pension plan for most reasons other than payment of retiree health benefits. The law is working well; 1980's style abuses are gone.

But the Republican Congress Wants to Restart the Raids to Pay for Tax Cuts.

In the Balanced Budget Act, the Republicans insisted on giving corporations a new opportunity to raid pension funds. Based on their numbers, they were expecting over \$15 billion to come out of pension plans. This could have affected the pensions of *almost 4 million workers and retirees* in 6,000 plans over the next five years.

President Clinton Fought Pension Raids. President Clinton told the Republicans he would veto the Balanced Budget Act if it encouraged pension raiding. The Republicans insisted on their provision. President Clinton vetoed the bill, saying "people who work hard and save for retirement ought to be able to retire with dignity . . . This bill would give companies the green light to raid pension funds and put those retirements at risk."

The President's Proposals Would Protect Workers' Pension From Corporate Raids.

- 1. Continue to Oppose Any Legislation That Allows Corporations to Raid Pensions.** President Clinton will continue to stand firm against pension raiding. Pension plans that are overfunded today can quickly become underfunded as interest rates change. With 80 million "Baby Boomers" nearing retirement age, we need to *increase* savings, not deplete them.
- 2. Requires Reports on Any Pension Reversions.** While it appears that current law has stopped the abuses of the 1980s, with the stock market again at record highs corporations are again looking to put pension assets to general corporate use. This proposal would require the Labor Department to report on reversions at least twice a year to the President, Congress and the public. That way, we will all know if raiding starts again, and if the current law needs to be strengthened.

**Clinton Administration Progress
On Retirement Savings And Security**

**CLINTON ADMINISTRATION PROGRESS
IN HELPING AMERICANS SAVE FOR RETIREMENT**

- 1993-94:** **Won Enactment of the Retirement Protection Act.** In December 1994, Congress passed legislation the Administration had submitted more than a year earlier that protects the benefits of more than 40 million American workers and retirees in traditional pension plans by increasing funding of underfunded pension plans and by enhancing the Pension Benefit Guaranty Corporation's (PBGC) early warning and enforcement powers. Pension underfunding has been reduced for the first time in a decade -- from \$71 billion in 1993 to \$31 billion in 1994; the PBGC deficit has dropped by 90%, from almost \$3 billion to \$300 million.
- 1993-present:** **Protecting Workers' Pensions in Corporate Transactions.** In 35 cases with major corporations, almost \$14 billion has been added to underfunded plans covering over 1 million workers and retirees through the "Early Warning Program." In addition, more than \$20 million has been saved for retirees that would have been taken from pension plans in corporate restructurings.
- 1994:** **President Clinton Announced the Middle Class Bill of Rights, Including Expanded IRAs.** This packet of targeted tax cuts, including the expanded IRAs, has been included in each of the President's balanced budget plans.
- 1995:** **Initiated a Nationwide Enforcement Effort to Protect 401(k) Retirement Savings.** To protect workers against pension fraud, the Department of Labor has:
- Opened over 650 investigations involving possible mishandling of 401(k) contributions, recovering over \$7 million for 9,000 workers.
 - Launched the "Pension Payback Program," a voluntary program whereby eligible participating employers have until September 7 of this year to restore delinquent employee contributions to 401(k) plans, thereby avoiding potential federal criminal and civil penalties.
 - Proposed a regulation to shorten the number of days an employer can hold employee 401(k) contributions before putting them in an account subject to federal protections.
 - Submitted to Congress legislation that would, among other things, require plan administrators and accountants who discover fraud and other egregious ERISA violations to report them promptly to the Department of Labor.
- 1995:** **Successfully Opposed Republican Efforts to Fund Tax Cuts by Allowing Corporations to Take Over \$15 Billion Out of Pension Plans.** Successfully opposed Republican efforts to fund tax cuts by allowing corporations to raid their pension plans. The Republicans expected that their proposal would have permitted corporations to remove more than \$15 billion from pension plans, jeopardizing retirement security of millions of workers.

- 1995: Proposed a Significant Simplification of the Pension System.** The President's Pension Simplification Proposal, developed as part of Vice President Gore's Reinventing Government initiative and announced at the White House Conference on Small Business in June 1995, would enable businesses and other entities of all sizes, but particularly small businesses, to more easily make tax-advantaged savings programs available to their employees. The Administration plan includes the National Employee Savings Trust (NEST), a new "401(k)" plan for small businesses. The NEST minimizes administrative and compliance costs, and eliminates the need for employer involvement with the Government. The NEST is specifically designed to encourage retirement savings by middle- and low-income workers, not only the highly paid, without complicated forms or expensive calculations.
- Ongoing: Issuing Regulations Enhancing Pension Portability.** The Treasury has issued rules allowing workers to waive the 30-day notice period before they can roll over retirement savings to another retirement vehicle, including an IRA, and making it easier to directly move retirement account balances from one employer to another or to an IRA. As part of these rules, Treasury clarified that an outstanding loan to a plan can be transferred to a new plan that is willing to accept it, enhancing pension portability and allowing workers in transition to preserve loaned amounts as retirement savings.
- 1995: Issued Interpretation Making It Easier for Employers to Participate in Retirement Savings Education.** Recognizing that employers are a vital link in providing education to workers, the Labor Department, working with the SEC, is providing more explicit guidance to employers on the kinds of investment information and materials that can be provided without constituting "investment advice."
- 1995-present: Joined with 150 Private-Sector Organizations in a Public Education Campaign to Increase Awareness of the Need to Save for Retirement.** The campaign has produced and distributed two brochures to help people understand the need to save and direct them to sources of retirement planning information, produced print public service announcements, and gained wide media coverage.

**Illustrative Examples of the Impact of the
President's Proposals on Families and Individuals.**

SAVING FOR RETIREMENT AND COLLEGE MADE EASIER FOR FAMILIES

THE ADMINISTRATION'S EXPANDED IRA PROPOSAL

A married couple both work, have two children, and a combined income of \$55,000 per year. They are currently covered by a 401(k) plan at work. They would like to put away some additional money in an Individual Retirement Account, in part to save for their sons' college education.

Current Law:

But current law forbids them to make tax-deductible contributions to an IRA because they are covered by a qualified pension plan and have combined earnings of more than \$50,000. Moreover, if they were to contribute to an IRA, they would not be able to use the money for their sons' education without paying a 10% withdrawal penalty.

Under the President's proposal:

- This family would be able to save, tax-free, up to \$4,000 each year in an IRA.
- In addition, they would be able to withdraw money from the IRA, without any penalty, for their sons' education.
- If they wanted to be sure of covering the full cost of future education, they could use after-tax contributions to a new kind of IRA to invest in a state-sponsored pre-paid tuition plan for their younger son and pay no tax when education expenses were paid later under the pre-paid tuition plan.

SAVING FOR RETIREMENT FROM THE FIRST DAY ON THE JOB; USING AN IRA TO CUSHION UNEMPLOYMENT

A married worker whose family income is \$30,000 a year is laid off from his job. The worker had a 401(k) plan with his old employer, and his wife had been putting \$2,000 a year into an IRA. The worker really wants to keep his 401(k) retirement savings intact, but as his unemployment dragged on, he and his wife would have liked to be able to use some of the money in the IRA account to tide them over. After being out of a job six months, the worker finds a new job. The old employer will allow the worker to roll over his 401(k) balance into a new employer's plan, but the new employer doesn't allow rollovers, and moreover won't let the worker start saving his own money until he's been working for a year.

Current Law:

Current law forbids use of the IRA account unless the worker pays a 10% withdrawal penalty. In addition, current law discourages employers from allowing rollovers and from allowing new workers to start saving for retirement from the first day on the job.

Under the President's proposal:

- The worker and his family would have been able to use the money in the IRA without penalty to tide them over after 12 weeks on unemployment.
- The new employer will be encouraged to allow rollovers and to allow new employees to start saving from their first day on the job.
- Federal government employees will be able to save for retirement as soon as they're hired, rather than having to wait six months to a year.

PROTECTING RETIREMENT SAVINGS

A worker was employed by the same employer for 10 years, and contributed to a 401(k) plan for all those years. He was also covered by a defined benefit plan. For the first 8 years, the company did well, and the defined benefit plan was substantially overfunded. But during the last two years, the company experienced real financial difficulty. The employer started diverting his employees' 401(k) contributions to his personal account, rather than transferring them to a bank quickly, as had been his previous practice. After two years of struggle, the employer went out of business without replacing the money in the workers' 401(k) accounts, and terminated both the defined benefit and defined contribution plans. The worker found a new job and moved across the country, but he is worried about his pension from the defined benefit plan and fears that his 401(k) money may be gone forever.

Current law:

The worker's pension from the defined benefit plan is safe, but the delay between when the employer started diverting money from the 401(k) plan and when he went out of business could well mean the money cannot be recovered.

Under the President's proposal:

- The defined benefit pension will continue to be safe; the President has vetoed and will continue to oppose Republican efforts to allow companies to raid pension plans for general corporate purposes.
- The 401(k) account would be better protected, since the plan administrator would have been required to report promptly to the Department of Labor the employer's practice of misusing the 401(k) money. This report would prompt a Department of Labor investigation and restitution of the funds before the employer went out of business.
- Both the current defined benefit and proposed defined contribution Missing Participant Programs, run by the Pension Benefit Guaranty Corporation (PBGC), would help the employee keep track of his retirement benefits from the terminated plans.

SAVING FOR RETIREMENT IN A SMALL BUSINESS

THE ADMINISTRATION'S SMALL BUSINESS "401(k) PLAN"

A mother and daughter own a travel agency with 10 employees including several women who make \$25,000 a year. Despite their small size, they provide health care coverage for all of their workers and want to provide an employer-provided pension plan as well.

However, after surveying several possibilities, they find that the complexity of the forms, the administrative costs, and the need for specialized accounting services are too great. As a result, their workers are among the 76% of workers in small companies who do not have an employer-provided pension.

Current Law:

Because current law does not provide for a simple, easy to administer pension plans for small businesses, this travel agency provides no pension coverage. Moreover, because the owners are related, their own contributions would be limited.

Under the President's proposal:

- This family-owned travel agency could set up a small business 401(k) for their workers with a simple 1-page form, and no complicated employer-filing or testing requirements.
- If the owners contribute 3% of each employee's salary – or 1% and agree to match employee pre-tax contributions of up to 5% of the employee's pay – the owners could set up a small business "401(k) plan," which will allow each employee to contribute up to \$5,000, pre-tax, to a completely portable Individual Retirement Account. The owners will have no annual reporting, complex testing, "top-heavy" rules, and will not need to get IRS determination letters.
- All of their workers could have their contributions to their small business 401(k) made automatically through regular pay check deductions.
- The mother and daughter could each fully participate in a retirement savings plan, making establishing such a plan for their employees much more attractive.