an average 4-year car loan of $15,000, a 2-percent reduction in interest rates will save families $9,300 over the life of that loan.

I would just say that, overall, we are going to save dollars in our Republican balanced budget plan, and I would remind my home State of California that total Federal spending in the Republican balanced budget plan will increase, and I want to underline that, increase, a plus sign, from $177 billion in the fiscal year of 1995 to $215 billion in the year 2002, an increase of 22 percent.

Over the past 7 years, the Federal Government's spending in California was $1.1 trillion. Under our plan, the total Federal spending in California will be $1.46 trillion, an increase of 31 percent. So while we hear a lot about cuts of this budget, what we are trying to do is slow that growth, the rate of growth down.

And Social Security payments to my senior citizens? In California we are going to see an increase of $15.9 billion over the next 7 years. Medicare payments to Californians will increase $9.2 billion over the next 7 years.

All of this is important to a State that, as I had mentioned earlier suffered, and we want to see California yet again become the Golden State. I am just looking forward in the next few weeks to discuss the balanced budget and to see that we do vote for a balanced budget in the next 7 years.

Why the need for a balanced budget?

Each year American taxpayers pay almost $300 billion just to serve the debt we have already accumulated.

Without the Seven Year Balanced Budget Reconciliation Act, the share of the $1.2 trillion in additional new Federal debt placed directly on the backs of California's children over the next 7 years will be $140 billion. Each child born in America today will be greeted with a tax bill for $187,000 just to service the debt over his or her lifetime.

The national debt as of November 6, 1995, was $4,984,737,460,958.92.

EFFECTS OF SPENDING CUTS OF THE SEVEN YEAR BALANCED BUDGET RECONCILIATION ACT

Although the doomsayers will have you believe otherwise with their false scare tactics, the Congress is not imposing draconian cuts; we are just curbing the amount of wasteful spending Congress has been in the habit of authorizing over the past 40 years.

Our Medicare Preservation Act saves Medicare from bankruptcy, keeping our Government's commitment to traditional Medicare. It increases the average per beneficiary spending from $4,800 in 1996 to $6,700 in 2002. The Preservation Act simply slows the rate of growth of Medicare.

Under the Republican balanced budget plan, total Federal spending in my home State of California will increase from $177 billion in fiscal year 1995 to $215 billion in 2002, an increase of 22 percent. Over the past 7 years, the Federal Government spending in California was $1.1 trillion. Under the Republican balanced budget plan, total Federal spending in California will be $1.46 trillion, an increase of 31 percent.

Breaking these costs down.

Social Security payments to Californians will increase $15.9 billion over the next 7 years.

Federal welfare spending for food stamps, child care, cash welfare, child protection, school nutrition, and other such programs will increase $40 billion over the next 7 years.

Medicare payments to Californians will increase $9.2 billion over the next 7 years.

Medicaid payments to California will increase $3.4 billion over the next 7 years.

LONG-TERM EFFECTS OF THE SEVEN YEAR BALANCED BUDGET RECONCILIATION ACT

The balanced budget legislation will put our financial house in order while, it is estimated, creating 6.1 million new job opportunities in the early part of the 21st century. Income per family will rise by $1,000 a year and interest rates will decline by up to 2 percent, making loans for homes, cars, education, and start-up businesses more accessible. Most important of all, a balanced budget will give our children and children's children a higher standard of living, more job opportunities, and a country free from ever-increasing debt.

Again, breaking down the long-term benefits of this measure:

A drop of 2 percent in interest rates will create 497,000 new private sector jobs in California; in addition, it will reduce the taxes of California families by $23.8 billion over the next 7 years.

A 2-percent drop in interest rates means that an average 30-year home mortgage will save families in Santa Barbara County, CA, my southern constituents, $111,000 over the life of the loan for a $225,000 home. This is the median price for a home in that county in 1995; my northern constituents in San Luis Obispo County where the median price of a home in 1995 and $163,000 would save nearly $100,000 from a 2-percent reduction in mortgage rates.

On an average 10-year student loan of $11,000, a 2-percent reduction in interest rates means graduates will save $2,160 over the life of the loan.

On an average 4-year car loan of $15,000, a 2-percent reduction in interest rates will save families $900 over the life of the loan.

Lastly, I would like to elaborate on Chairman of the Federal Reserve, Alan Greenspan's thoughts on the GOP goal of balancing the budget by 2001.

In a speech earlier this month to the Concord Coalition, Greenspan said he believes that "progress this year in coming to grips with the budget deficit has been truly extraordinary." He attributes falling long-term interest rates with this recent progress.

In addition, Chairman Greenspan stated that "Unless the budget deficit is brought down before foreign funds become increasingly costly, domestic investment will be impaired, economic growth will slow, and pressure on monetary policy to inflate could re-emerge."

With such rosy predictions of the economic effects of our plan, I ask the doomsayers what are the true draconian effects of our plan to balance the budget over the next 7 years? Are your concerns legitimate or are they simply false scare tactics motivated by envy for not having your own legitimate plan? I tend to believe the latter.

In summary, the Seven Year Balanced Budget Reconciliation Act incorporates the most dramatic changes in Washington in more than 40 years. It balances the budget in 7 years, provides significant tax relief to American families, preserves, protects, and strengthens Medicare and replaces the current welfare bureaucracy with compassionate solutions that restore the dignity of work and strengthen families. This legislation provides a better future for our Nation's children. Thank you, Mr. Speaker.

PROVISION IN BUDGET RECONCILIATION BILL ALLOWS CORPORATIONS TO REMOVE EXCESS PENSION FUNDS

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Massachusetts [Mr. NEAL] is recognized for 5 minutes.

Mr. NEAL of Massachusetts. Mr. Speaker, we are here tonight to discuss a provision that was included in budget reconciliation. This provision would allow corporations to remove excess funds from overfunded pension plans for any reason. There is only one way to describe this provision and that is the raiding of pension plans.

Ten years ago we were faced with a similar situation. Let me read a quote from the Nov. 3, 1985 edition of the New York Times. The article was entitled "Raking in Billions from Company Pension Plan."

> At an increasing pace, some of the most familiar names incorporate . . . have already withdrawn or are trying to withdraw, $8 billion in surplus pension money. They are diverting this money to other corporate use, such as take over financing and capital investments and offering their employees substitute pension plans . . . Workers across the country are growing increasingly concerned that the stream of retirement income generated under the present pension system might disappear by the time they retire . . . Some blue-chip companies have been accused of cynically using pension funds bank accounts and tax exempt savings account.

It is almost eerie how this quote from 10 years ago applies today. This quote could have been in today's New York Times.

During the 1980's, approximately $20 billion in pension funds were drained by companies. Congress acted responsibly and passed legislation to protect pensions.

The pension provisions in the House budget would undo all the good Congress had done in one fell swoop. It has been estimated that this provision could result in $40 billion leaving pension funds.

Once again corporations are looking to take money from pension plans to use for their own whims. We cannot allow pension funds to be used as tax free corporate checking accounts.

I have been reviewing the newspaper clippings on this issue and all across the country it is perceived as a bad idea. I want to share with you some of these headlines.

"Leave Those Pension Funds Alone" Business Week October 23, 1995.

"The GOP Had Better Get Business Off The Dole, Too" Business Week October 16, 1995.

"Pension Pirates" New York Times, October 27, 1995.

''The Great Pension Fund Raid, Part II'' Los Angeles Times, October 17, 1995.

''An Unconscionable Raid on Pensions'' Chicago Tribune, October 2, 1995.

''Keep Paws Off Pension Fund Assets'' Chicago Tribune, September 25, 1995.

''The New Tax-Free Corporate Checking Account'' Newsday, September 21, 1995.

''Cut Now, Pay Later'' Plain Dealer, Cleveland Ohio, October 3, 1995.

''Protect Pension Fund Assets'' Sunday Patriot, Harrisburg, PA, October 1, 1995.

I could go on and on but I think I have made my point. Congress should protect pension plans. The Senate has heard this message. The Senate voted overwhelmingly by a vote of 94 to 5 to delete their more restrictive corporate reversion provision.

Mr. Speaker, why has the House not yet heard this message? The headlines have made it clear. This provisions is an unconscionable provision.

Why is this provision needed? The House budget provides a huge tax cut to the wealthy and tax benefit to corporations at the expense of the middle class.

Our No. 1 economic problem is our low national savings rate. We have to encourage individuals to save for retirement. This provision does the opposite.

One of the main reasons for the Republican tax reform proposals is to increase the national savings rate. Our decline in savings can be attributed to declining private-sector contributions to employee pension plans. The provision in the budget is contradictory. This provision will allow corporations to immediately suck money out of pension funds.

The proponents of this provision argue this provision will free up money and put it to work for job creation. An analysis done by the General Accounting Office [GAO] shows that most pension money is invested such as stocks and bonds that yield a financial return and provide capital to other companies.

Plan fiduciaries are required by law to invest plan assets for the exclusive benefit of participants and to seek the highest rate of return for a given level of risk. The provision in budget regulation has no such safeguard.

I served on the Banking Committee during the S&L crisis and this is the ghost of the S&L crisis. We cannot afford to put the Pension Benefit Guaranty Corporation [PBGC] at risk. We cannot afford a taxpayer bailout of the PBGC.

I cannot think of one logical reason to include this provision in reconciliation. We cannot have a provision that is bad retirement policy. This provision does not belong in budget reconciliation. We have to protect the pensions of hard working Americans. We cannot let corporations siphon pension funds.

I have with me several editorials, letters to the editor, and articles about the corporate pension reversion which I will place in the RECORD.

The information referred to is as follows:

[From the Arizona Republic, Nov. 1, 1995]

PROPOSAL BENEFITS IRS, WALL STREET, NOT PENSION PLANS

No better time than right now for pension-dependent retirees to contact Senators McCain and Kyl about a House-passed measure that would permit employers to withdraw ''excess'' assets from pension plans. The measure is prompted by the taxes that will be due on the monies withdrawn from pension plans by employers encouraged to do so by the prospect of plump after-tax windfalls to strengthen their balance sheets.

This revenue-raising idea starts with today's high-flying financial markets: plan asset valuations are looking fatter than needed to meet future benefit obligations. This, however, assumes that the stock market will continue to fly high. Returning today's paper-value cushion to employers transfers the risk of tomorrow's market-value loss to pensioners.

Botton-line-driven corporate managers will be hard-pressed not to regard an immediate balance-sheet windfall as more important than a potential pension shortfall. It is naive to think that these decision makers, pressured by the demands and expectations of Wall Street, are likely to forego a windfall in deference to the best interests of a constituency of powerless retirees, when management can order up from its CFOs conveniently rosy, asset-value prognostications to justify its actions.

Dependent as I am on my pension, I am loath to accept the risk of this high-flying market crashing and burning just so my former employer can enjoy that one-shot balance-sheet windfall.

The (transitory) budget benefits gained through taxation of pension-asset drawdowns is an incipient threat to the financially weak Pension Benefit Guaranty Corporation, a federal insurance fund that protects pensioners from plan failures.

This ill-advised House measure—as short-sighted as all the past careless measures that have placed the Medicare and Social Security trust funds in jeopardy today—awaits Senate approval. Now is the time to write.—Arnold E. Buchman, Scottsdale.

[From the New York Times, Oct. 19, 1995]

DON'T LET COMPANIES SKIM PENSION FUNDS

To the Editor:

''A Hard-Hearted Tax Bill'' (editorial, Oct. 12) neglects to mention one provision of the Republican tax bill that needs to be eliminated or modified: the proposal that makes it easy for companies to take ''excess'' assets out of employee pension plans, with little or no penalty, and to use those funds for nonpension purposes.

The Joint Committee on Taxation has estimated that the proposal would cause $40 billion of assets to be taken out of plans over the next five years. This could be disastrous for both taxpayers and retirees with private pensions.

Taxpayers would be at risk because a taxpayer bailout of underfunded pension plans would be more likely in an economic downturn. Retirees would be hurt because they would be less likely to receive cost-of-living increases in the future and because they would experience less security in their basic pensions.

The Pension Benefit Guaranty Corporation has indicated in a study the extent to which a plan that is overfunded can quickly become underfunded. A plan that is 125 percent funded could become underfunded with a 10 percent drop in the stock market, coupled with a 1 percent drop in interest rates.

Giving companies the right to extract $40 billion would only exacerbate that situation.

The main justification of House Republicans for this piece of corporate welfare is that it would raise an estimated $10 billion or more in corporate income tax revenues over seven years, thus helping to reduce the deficit. This is false economy, since it raises the possibility of another savings and loan association-type bailout and of retirees losing all or part of the pension they have earned.

Congress should either eliminate the provision from the tax bill, or modify it to allow employees and retirees to share a portion of whatever ''excess'' assets a company chooses to take out of its pension plan.—Charles Londa, Houston, Oct. 12, 1995.

[From the Valley Independent, Oct. 6, 1995]

TELL CONGRESS TO LET OUR PENSIONS ALONE

The outcry from the public should be loud enough to rattle the halls of the Capitol. The message should be don't mess with our pensions.

The House Ways and Means Committee has approved a measure that could endanger the retirement security of 13 million Americans.

At least that's the claim of three Cabinet members—Labor Secretary Robert Reich, Treasury Secretary Robert Rubin and Commerce Secretary Ronald Brown, who serve on the board overseeing the federal Pension Benefit Guaranty Corp.

By permitting companies to make withdrawals from pension plans at any time and for any purpose, Republicans expect the plan to raise $9.5 billion for the government because companies would pay corporate income taxes on the withdrawals. Currently, withdrawals are permitted only if the money is used for retirees' health benefits. The proposal is part of a bill intended to reduce the budget deficit by $38 billion over seven years.

The Cabinet trio say this measure would trigger the withdrawal of up to $40 billion from pension plans in the next five years—twice what was removed by companies during the corporate takeover frenzy of the 1980s.

''We are going to see raids on pension assets that will make the train robberies during the days of Jesse James pale in comparison,'' Reich said.

Ways and Means Chairman Bill Archer, R-Texas, calls these charges by Cabinet members a politically motivated attempt to scare people and claims the measure will give workers more retirement protection by encouraging employers to fund pensions at a higher level. He said the legislation would require corporations making withdrawals to leave an ample cushion of 25 percent more than needed to meet current liabilities.

But according to an analysis by the pension benefit agency, 20 to 50 plans on an underfunded watch list suffered withdrawals in the 1980s of what were then considered excess assets.

Also, the agency said an examination of 10 large plans shows the Ways and Means limit on withdrawals isn't enough to protect pension plans if the companies go bankrupt and their pension plans are terminated. Such plans would be left with less than 90 percent of the money needed to meet its obligations, the agency said.

Referring to the pension raids in the '80s, Brown said: ''We know what happened when the barn door was open. We closed the barn door. This would reopen the barn door. It's illogical.''

More than illogical, it is a violation of trust—the American workers' trust that the money for their pension will be there when they are eligible to retire.

Along with attempts to cut Social Security and Medicare, this threatens the ability of workers to afford retirement in the near future. If people reaching retirement age must keep working, this means less jobs will

be available for the young. This is what's really illogical. It will be just another reason unemployment and welfare rolls will rise.

Don't let that barn door be reopened. Protect your future by letting your congressman know how you feel.

You can write Rep. Frank Mascara, D-Charleroi, at 1531 Longworth House Office Building, Washington, D.C., 20515.

[From the USA Today, Sept. 22, 1995]

TODAY'S DEBATE: PENSION PROTECTION—ATTEMPT TO TRIM DEFICIT PUTS PENSIONS IN DANGER

Is your company's pension plan solid? If so, it may soon be ripe for picking—by your boss.

A proposal moving toward passage in Congress would allow corporate raids on business-financed pension funds. At risk—$80 billion in savings in those funds plus billions more in taxpayers' money because the funds are federally insured.

The technicalities of what House Republican tax-writers are doing sound safe enough. New rules would merely eliminate a 50% tax penalty on money withdrawn from pension accounts in excess of 125% of that needed to meet current liabilities.

Only the 125% cushion is bogus.

A study by the Pension Benefit Guarantee Corp. found that even such supposedly healthy funds, if terminated suddenly by, say, a business bankruptcy, could pay less than 90% of promised retiree benefits.

On top of which, even the surplus can quickly disappear if stocks go south or interest rates decline.

That's what's happened to a lot of pension plans that companies raided for their surpluses in the 1980s. For example, ASI Holding took $120 million from a supposedly overfunded plan in 1988. It's now $86 million underfunded. Enron Corp. took out $232 million in 1986 and is now $82 million underfunded. If either company goes out of business, taxpayers will pick up the bill.

Indeed, taxpayers are now liable for $71 billion from such underfunded plans. A bear stock market, and the GOP proposal could up that by $80 billion. And along with taxpayers, a lot of once comfortable pensioners will be at risk, too. Federal insurance only picks up $30,000 in annual benefits.

So, why are Republicans racing to take this gamble? To raise money to pay off hundreds of billions in tax breaks and yet balance the budget by 2002. Funds withdrawn from pensions are subject to corporate taxes. Authors estimate they'll raise $10.5 billion from them.

That misses the whole point of deficit cutting—to stop the government from draining away private savings needed for investment and growth. For every $1 this plan cuts from the deficit, $4 in pension savings and potential investment go out the window.

Still, such pension raids for deficit cutting aren't new. Reforms in 1982, 1986, 1987, 1993 and 1994 put limits on pension contributions, and even penalized companies for overfunding their plans, all in the name of deficit-reduction. The result: a steady decline in national savings—the key to growth—and a rise in underfunding of pension plans.

Now, the nation has little savings left. Congress should try to reverse the process, not exacerbate it.

[From Business Week, Oct. 23, 1995]

LEAVE THOSE PENSION FUNDS ALONE

Who ''owns'' the $100 billion in surplus money in Corporate America's pension plans, the retirees or the companies? Either way, Congress' proposal to allow corporations to tap surplus pension funds is a bad idea. It's a short-term policy that will generate quick tax bucks to help balance the budget at the expense of overall savings in the nation. It may be good for companies, it may not even hurt retirees, but it is bad government policy.

Virtually all U.S. retirement plans are shaped by the government's need for revenue rather than the family's or the economy's need for savings. Employee contributions to 401(k) plans are capped by the government at $9,240. This year, Congress actually cut the 401(k) contribution by not compensating for inflation. It needed more tax income to make up for a cut in revenues that occurred when trade tariffs were reduced. That's ridiculous, given that if people with 401(k)s could sock away more money for retirement, more capital would be available for economic growth and jobs.

The limits on individual retirement accounts are even tighter—$2,000 if you are not in another pension plan. Self-employed people with Keoghs get a much better deal: They can save up to $30,000 or 15% of their income annually tax-free. If entrepreneur can save that much for the future, why not corporate employees? Washington should be encouraging all to put more money into pension plans, not less.

[From Business Week, Oct. 16. 1995]

THE GOP HAD BETTER GET BUSINESS OFF THE DOLE, TOO

(By Mike McNamee)

Christmas came early on K Street. Washington's business lobbyists awoke one morning in late September to find a $40 billion present from Ways and Means Chairman Bill Archer (R-Tex.): a proposal to let companies reclaim and spend massive assets locked away in overfunded pension plans. The loophole was designed mainly to help budget-cutting Republicans, who will garner $10.5 billion in taxes if companies pull out $40 billion in assets, as expected. But Archer's gift was a big hit in Corporate America—and like the very best presents, it was pretty much a surprise. ''We didn't ask for it,'' says a pension lobbyist, ''but you can bet we're defending it now.''

So much for ending ''corporate welfare'' as we know it. Early this year, Republican radicals swore they would erase the GOP's image as the Skybox Party. House Budget Chairman John R. Kasich (R-Ohio) targeted $30 billion in special corporate tax breaks for elimination. Strategists warned of a public-relations disaster if Republicans slashed the social safety net while leaving a cocoon of $86 billion in subsidies and breaks for Big Business.

UNCHALLENGED

Did the majority of Republicans get the message? No. Some have learned to talk the talk: Archer, for example, portrays his pension-raid plan as the centerpiece of ''corporate tax reform.'' But in reality, ''corporate welfare continues unchallenged,'' complains former Bush aide James P. Pinkerton. Even the GOP's struggle to carve $1 trillion from the budget over the next seven years can't shake its reflexive urge to shower business with federal largesse. If they can't repress that instinct, Republicans will never convince voters that they have been reborn as the champions of the middle class.

Most of the biggest corporate breaks were never in peril. Oil drillers and timber companies didn't lose any sleep over their loopholes—not with Texan Archer and, until recently, Oregon Senator Bob Packwood in charge of tax policy. Republicans who had long denounced the ''socialism'' of the Tennessee Valley and Bonneville Power authorities ''got real quiet when their party started winning seats in the Northwest, the land of cheap electricity,'' says Robert J. Shapiro of the Progressive Policy Institute, a Democratic think tank. Big exporters will continue to enjoy sales help from the Export-Import Bank and the Agriculture Dept.'s marketing-promotion programs.

Even where budget-cutters did propose small nicks in corporate welfare, lobbyists have come roaring back. Iowa Republicans reminded House Speaker Newt Gingrich (R-Ga.) that they're hosting the first event of the 1996 primary season—and persuaded him to eliminate the Ways & Means panel's cap on tax breaks for ethanol, a boon to corn farmers and agribusiness giant Archer-Daniels-Midland Co. Home-state shipping interests prevailed over ideological purity for Senate Majority Whip Trent Lott (R-Miss.), who forced $46 million in maritime subsidies back into the budget.

Budget pressures ultimately may doom some subsidies. The imperative to cut $13 billion from farm programs, for example, may guarantee that something like the Freedom to Farm Act—a 7-year reduction in price supports—will prevail. The pork that's packed into the Pentagon's appropriation will certainly be trimmed in hard negotiations between Capitol Hill and the White House. And tax breaks for pharmaceuticals markers' Puerto Rican plants, long under assault, may slowly wither away.

That's a start—but it's not enough. A GOP that believes social welfare breeds personal dependency can't go on pretending that corporate welfare builds a strong economy. The party that's bold enough to reform health care for the elderly ought to show the same fortitude when tackling oil drillers and airplane manufacturers. If Republicans can't wake up to the glaring disparity in their positions, they can be sure the voters will.

[From the New York Times, Oct. 27, 1995]

PENSION PIRATES

By James H. Smalhout

Congress is playing politics with pensions and ignoring the financial risk to workers and taxpayers. A proposal in the House budget reconciliation bill, passed yesterday, would let any company with a strong pension fund take money out of it for any reason as long as the plan maintained a cushion of 25 percent more than the cost of paying current benefits. The Senate is debating a similar proposal.

Letting companies dip freely into pension funds is a bad idea. Federal pension laws understate the costs of keeping plans afloat, so even a 50 percent cushion might not be enough to withstand volatility. And the country already has a serious pension problem: about 25 percent of private plans together come up short of their current obligations by $71 billion.

Still, this flawed proposal, written by Bill Archer, chairman of the Ways and Means Committee, responds to a serious concern. Some companies with flush pension plans have become targets for hostile takeovers. Predators want to grab surplus pension money to shore up their own funds. This is one reason why WHX, a West Virginia steelmaker with a weak plan, has been trying to take over Teledyne, which has a $1 billion pension surplus.

The natural defense for target companies is to remove the attractive nuisance of surplus pension money. So employers with good plans are under pressure to take money out of them to survive. This was easy in the 1980's, when companies could simply terminate their plans and turn the liabilities over to insurance companies to pay the benefits. But these deals were often risky, so Congress set excise taxes as high as 50 percent, which have all but ended them.

Companies can take money out of their plans to cover retirees' health care premiums. But this provision has little value unless a company has many retirees. Dynamic young firms like Teledyne do not.

Concern about the plight of takeover targets should not move Congress to let these companies raid their pension funds at will. The contributions of a worker and his company become larger—and his benefits increase faster—the longer he stays on the job. So it doesn't follow that a pension plan has a healthy future just because it has a surplus today.

The sensible approach is to require plans to maintain a precautionary surplus. Without extra assets to protect against volatility and rising costs, a plan is just a long-term Ponzi scheme like Social Security. And that's very risky for taxpayers, who stand behind failing pension funds.

Last year, Congress and the Clinton Administration ducked the fundamental issue of how to provide workers with secure pensions while protecting taxpayers. They raised taxes on weak pension plans and passed slightly stricter financing requirements. But these measures were hopelessly inadequate. And by taxing companies with weak plans, they strengthened the urge to merge that puts companies like Teledyne under pressure from pension pirates.

That is why Representative Archer is proposing to allow companies to take extra pension money for any corporate purpose. In his favor, the Government does not do a good job of detecting which companies are strong enough to keep their pension promises. But his legislation is unwise. No law should let companies tap retirement money without recognizing the long-term financial costs.

There is a better way. Workers and taxpayers could be protected by requiring companies to secure their pension benefits with a guarantee from triple-A rated insurance companies. This would keep companies like WHX from ending up with weak plans. If the creditworthiness of the pension plan and the company was so weak that private insurance couldn't be obtained, benefits would be frozen. Companies in such sorry shape have no business making false promises to their workers.

President Clinton has vowed to veto the budget package, and the veto would likely be sustained. The House should use the opportunity to make sure that companies keep their pension plans in good shape, not to declare open season on workers who have paid to have safe and secure pensions.

[From the Los Angeles Times, Oct. 17, 1995]

THE GREAT PENSION FUND RAID, PART II

Americans covered by pension plans with defined benefits had better watch out for the frenzied congressional effort to allow companies to divert money from these employee retirement funds. Congressional Republicans are trying to lift safeguards that were imposed in 1990 to prevent raids on pension funds. Making it easier for some companies to withdraw so-called excess assets could put these plans at risk. This is one item in the huge tax package working its way through Congress that should be abandoned.

Under current law, companies may withdraw excess assets—defined as those exceeding 125% of the amount needed to meet projected pension obligations—without penalty, but only if the money is used for health benefits for retirees. For withdrawals for other purposes, companies must pay tax penalties of 25% to 50% as well as income taxes. Congress imposed the penalties five years ago in response to corporate raiders who took over companies in the 1980s and tapped surplus pension funds, a move that left both retirees and the government at risk. About $20 billion was pulled out of the private pension system then, according to the Pension Benefit Guaranty Corp., the federal agency that insures defined-benefits pension funds.

The House Ways and Means Committee has already cleared a bill, sponsored by Bill Archer (R-Tex.), to allow firms to withdraw funds for any purpose without notifying pension participants. The withdrawals would be subject to an excise tax of only 6.5% (in addition to income taxes). Any withdrawals before next July 1, would escape the excise tax—an undesirable inducement to use surplus funds quickly. The Senate Finance Committee is considering a similar measure.

Proponents stress that under the change the government stands to raise about $9.5 billion over seven years because many more companies would tap pension money. But a potentially negative effect of the legislation is that an estimated $30 billion in pension funds could be withdrawn. Raiding excess pension assets would be particularly tempting to financially weak companies.

Might current overfunded pension funds become underfunded? Yes. After all, companies are never absolutely sure of how much they will need to pay retirees in pension benefits. That depends on how long retirees live and other variables, such as interest rate fluctuations.

For all these reasons, these changes in the use of excess pension funds should be opposed. Pensions are a crucial factor in the national savings rate, and financial saving is something government policy should encourage, not discourage.

[From the Chicago Tribune, Oct. 3, 1995]

PENSION PROPOSAL AIDS RAIDS

(By Kathy Kristof)

In a move that both startled and horrified pension advocates, a key congressional committee passed a proposal making it easier for some companies to raid their employee pension plans.

The provision is a key of a sweeping tax overhaul that would save the government an estimated $30 billion over five years. As a result, it has a good chance of passing into law, despite the fact that everyone from the American Association of Retired Persons to the AFL–CIO is fighting against the pension provisions, Washington insiders say.

"This is going to make pension plans a tax-free checking account for companies," says Neil Hennessy, deputy executive director of the Pension Benefit Guaranty Corp. (PSGC), a government agency that backs defined benefit pension plans. "Nobody anticipated that Congress would do this."

"It's unbelievable," adds Cindy Hounsell, staff attorney at the Pension Rights Center. "It's a return to the 1960s."

What the provision would do is simple. It would drastically reduce tax penalties for taking money out of an "overfunded" pension, cutting the excise tax to 6.5 percent from penalties that range from 20 to 50 percent today. Indeed, it would actually give companies an incentive to raid their pensions quickly—before July 1, 1996—by waiving all tax penalties for taking surplus money out of pensions that have more than 125 percent of the money needed to pay future retiree benefits.

Under the proposed rules, the government would still make money if a company raided its pension, because any amount "distributed" from a pension is considered taxable income. Companies that raided their pensions before July 1 would pay income tax, but no penalties on the amounts withdrawn.

Currently, if companies take money out of a defined benefit pension, they must pay income and excise taxes on the amount withdrawn—similar to the taxes and penalties you would face if you withdrew money early from an individual retirement account. However, the corporate penalties are currently much more severe, amounting to between 20 and 50 percent of the withdrawn amount in addition to regular income taxes paid on the money.

In the end, a corporation that took money out of a pension today would lose 80 to 85 percent of the withdrawn amount to federal taxes, says Bruce Ashton, a Los Angeles-based pension attorney.

The high penalties were instituted in the late 1980s, after a wave of corporate raiders took over companies, spent their pension "surpluses" and ultimately left both retirees and the government at risk. The government, in the form of the Pension Benefit Guaranty Corp., insures defined benefit plans to specified limits, essentially putting taxpayers on the hook for any big losses to the pension system. However, some retirees are also at risk because the government insurance covers only up to set amounts—currently to about $2,574 in monthly benefits. Those who were promised more could lose any excess amounts in a pension plan failure.

How can it be risky to withdraw money from a pension when the company has more than 125 percent of the amount it needs to pay future benefits?

The tricky thing about pension surpluses—and shortages—is they're all estimated. In reality, companies don't know precisely how much they'll need to pay retiree pension benefits. The real cost will depend on how long employees live and collect monthly payments—and on how much the company earns on its savings in the interim.

The proposed law stipulates that companies that decided to withdraw funds from an overfunded plan would not be required to inform their workers, says Hennessy.

How much damage could this do to the income of future retirees?

"It's hard to judge," says Hennessy. "It is very difficult for consumers to stop a raid of their pension when the law allows it. But most people are paid what they are owed by their plan."

In fact, many believe the law has wings for one simple reason. It could allow the government to immediately collect billions in income taxes from companies that take money out of the pension and declare it as income. At the same time, the risks are hard to quantify, and the costs—anticipated in future pension plan failures—aren't likely to hit for years, probably long after today's congressional leaders are retired.

[From the Chicago Tribune, Oct. 2, 1995]

AN UNCONSCIONABLE RAID ON PENSIONS

Whenever the big fiscal squeeze is on in Washington—as it is now—politicians of all stripes are tempted to dip into money pots wherever they can find them.

One of the most inviting stashes is the nearly $5 trillion salted away in pension funds. Republicans on the House Ways and Means Committee recently sanctioned a raid on corporate pension funds as a way to raise new revenues and help them balance the budget.

Democrats blasted the tax-writing panel's action, contending it would threaten workers' nest eggs and could leave taxpayers with a sizable bill if any pension plans go belly-up as a result.

But with Congress cutting spending on social programs, the Clinton administration has been pushing to let private pension funds invest in low-income housing and other so-called economically targeted investments. While the White House is technically correct that this doesn't constitute a raid on pension

funds, it's at least a thinly veiled sneak attack.

The point is that both parties should keep their grubby hands off pension-fund assets. Employers pay into retirement funds, hoping they will grow enough to cover the payouts promised to retirees. By law, fund managers should be concerned solely with investing to increase benefits for plan participants, and the money in a fund should be thought of as belonging to the participants.

House Republicans, however, decided to ease the rules so employers could withdraw ''excess'' money from pension funds—cash above future pension needs—and use it for anything they want. They said the companies would invest it in new plant and equipment and not jeopardize the funds because they still would be required to have a 25 percent cushion as insurance to meet future obligations.

Even with the cushion, Democrats contend the drawdown of assets will make some funds vulnerable to lower returns if the economy and stock market sour. Then, the administration argues, the government would have to come to the rescue of underfunded pensions, with taxpayers footing the bill.

Republicans would increase the odds for greater unfunded pension liabilities and for some funds to go under. Why? Because while the move would divert up to $40 billion from the pension system, companies would have to pay income tax on the money, raising nearly $10 billion over seven years.

It's a terrible gamble at the wrong time. Many pension funds already are underfunded. Workers aren't saving adequately for retirement and, early in the next century, Social Security will face serious financial woes. Republicans and Democrats alike should keep their hands out of the pension fund cookie jar.

[From the Chicago Tribune, Sept. 25, 1995]

KEEP PAWS OFF PENSION FUND ASSETS

(By Bill Barnhart)

Have you noticed? Squirrels are especially busy gathering nuts as fall begins this year. That means a harsh winter lies ahead, according to some nature lovers.

Well-heeled financial backers of the current Republican majority in Congress—perhaps sensing that the good days won't last much longer for them, either—are busy grabbing for everything they can get as fast as they can get it. Under cover of the high-profile debates about budget deficits, welfare reform and Medicare, they are stuffing their cheeks with smaller morsels that don't get media attention.

A few weeks ago legislation emerged to weaken the nation's securities laws that protect small investors in favor of the interests of the ''entrepreneur.'' (This Republican Congress may be remembered best for giving entrepreneurship a bad name.)

The latest is a proposed raid on corporate pension funds, which represent the storehouse of retirement savings for millions of American workers. Instead of helping their employees gather retirement nest eggs that will withstand the vagaries of financial markets, certain employers have decided they want free access to the so-called excess dollars in company pension plans.

Many employees these days aren't being covered by pension plans at all, but are expected to sock it away themselves through such tax-advantaged programs as 401(k) plans and individual retirement accounts. A big worry is whether they are saving enough.

There is no provision in the rules for workers who have been fortunate enough to see their 401(k) or IRA portfolio value grow in the current bull market to declare an ''excess'' and withdraw funds for a vacation without paying a tax penalty.

But that's exactly what certain employers pushing a bill recently passed out of the House Ways and Means Committee want to do with employee pension fund assets. Only instead of a vacation, the fun and games could involve more ego-building mergers and acquisitions by a handful of financiers who would use pension fund assets to pay for their deals. It happened in the 1980s, and it can happen again.

''We though we'd put an end to those things,'' said Martin Slate, executive director of the Pension Benefit Guaranty Corp., which has the unenviable task of making good when employers skip out on their employee pension obligations.

Employers pushing this measure say they want to use the locked-up capital to grow and create jobs. That may be. But companies such as Chrysler, with large unrestricted cash amounts on their balance sheet often become sitting ducks for hostile takeover artists. Unlocked pension fund assets on the balance sheet are as inviting as cash to a raider. Certainly, the employees would not get to vote on the use of their ''excess'' pension funds.

Slate's agency estimates that $30 billion to $40 billion in pension assets would be raided if the provision now under consideration passes. That's $30 billion to $40 billion less of an already shrinking cushion of pension fund surplus. Meanwhile, the level of unfunded pension liabilities has been growing.

A law enacted in 1990, largely in response to the raids on pension funds during the previous decade, bans employers from withdrawing the alleged excess employee pension funds, except under limited circumstances to pay retiree health benefits.

Some companies advocate a limited change in the law to permit them to tap a conservatively derived surplus in their employee pension funds to pay health care benefits for active workers. That idea deserves consideration because it would benefit employees. But to turn any amount of pension fund assets into a company checking account for any purpose is dangerous public policy.

The ability and willingness of American workers to save adequately for their retirement is a major concern these days for individuals and the economy as a whole. Letting employers raid their employees' storehouse is no answer to the problem. The fat-cat squirrels should stick to their own nests.

Dumb question: Why doesn't the dividend yield figure relate to the price of the stock, so that when the price per share changes so does the yield statistics?

It does, but sometimes the change goes unreported in newspaper stock listings because of rounding. For example, a stock with a $2.40 per share annual dividend selling at $60 would have a reported dividend yield of 4.0 percent in the stock listings. If the stock price dropped to $59.125, the yield would rise to 4.05 percent, which still would be reported at 4.0 percent. If the stock price dropped to $59.00, the yield would be 4.06 percent, rounded up to 4.1 percent in the listings.

Recently, market commentators have noted that dividend increases have not kept up with stock price increases. To the extent that is true, the changes in reported dividend yields will be less frequent because the dividend represents a smaller part of the share price and the rounding problem becomes more pronounced.

[From the AARP Bulletin, November 1995]

PENSION FORECAST: NEW RAIDS COMING?

(By Robert Lewis)

A debate that everybody thought was settled five years ago over who owns pension assets—workers or employers—has suddenly reignited.

Touching off the controversy is a Republican plan in Congress to allow corporations to withdraw reserve assets from pension plans and use the funds for purposes other than pensions.

Under a provision included in a tax bill that recently passed the House Ways and Means Committee, employers could tap these assets just so long as they left a cushion of at least 25 percent over what is needed to pay current pension obligations.

Rep. Bill Archer, R-Texas, chairman of the Ways and Means Committee and author of the plan, said the ''pension reversion'' provision would be good for corporations, and also good for the overall economy.

''This will allow companies with excess money in their pension plans to put that money to use,'' he said in a prepared statement, ''to create new jobs, opening up opportunities to expand the economy.''

But critics see dangers for pension plans in the GOP proposal. They argue that a 25 percent cushion is not enough margin to prevent currently overfunded plans from becoming underfunded should their assets decline during economic downturns.

The Pension Benefit Guaranty Corp. (PBGC), the federal agency that insures pensions, calculates that a plan with a 25 percent cushion could become underfunded if the stock market dropped 10 percent or interest rates fell two percentage points.

''The [GOP plan] makes pensions vulnerable to stock market downturns,'' says Karen Ferguson, of the Pension Rights Center, a Washington advocacy group. ''It could place pensions at risk should firms get into financial trouble.''

Clinton administration officials attacked the proposal, charging that it would allow companies to siphon up to $40 billion from pension plans and threaten the retirement security of 11 million workers and 2 million retirees enrolled in some 22,000 plans.

If the plan become law, Labor Secretary Robert Reich told reporters, ''We're going to see raids on pension assets that will make the train robberies during the days of Jesse James pale in comparison.''

AARP officials also criticized the GOP plan, contending it would ''bring back the large pension raids of the late 1980's, ''when employers diverted some $20 billion of pension funds to other purposes. Much of the money was used to finance corporate takeovers and leveraged buyouts.

In 1990, the federal government sought to curb pension reversions by making employers subject to a 50 percent excise tax if they withdrew pension assets and terminated the fund, or a 20 percent excise tax if they established a successor plan. Firms pay federal income taxes on top of that.

Archer's bill would repeal the excise tax for six months, then reduce it to 6.5 percent through 2000. Congressional analysts estimate companies, as a response to Archer's bill, would pull $40 billion from pension funds.

If they did, that would generate $10 billion in tax revenue, experts figure, suggesting this may be the real reason for the Archer proposal.

But Labor Secretary Reich says such a gain may be illusory, since the federal government insures the nation's 58,000 conventional company pensions covering 41 million workers.

When plans fail the PBGC steps in and runs them, keeping pensions flowing to beneficiaries. Although the PBGC is financed by insurance premiums paid by corporate pension sponsors, any shortfalls conceivably could end up being paid by taxpayers.

At the heart of the controversy is a question of who owns the assets of pension funds.

Lynn Dudley of APPWP—The Benefits Association, which represents large corporations, has no doubts about the matter. ''Excess assets belong to the employer,'' she says.

But pension advocates say the money is deferred compensation and belongs to workers. Still other suggest the money belongs right where it is—in the pension trust. ''Employers simply should not be permitted to put workers' pension-fund money at risk, as would happen with this proposal,'' says AARP lobbyist David Certner.

[From the Washington Post, Oct. 31, 1995]

TWO BAD IDEAS

The enormous budget-balancing bills that the House and Senate passed last week each contain some corporate tax increases. Two in the House version of the bill are bad ideas and ought to be dropped in the conference that now begins.

One would make it easier for corporations to remove supposedly excess funds from their pension reserves and use the money for other purposes. Thought it would result in some increased tax payments, it is less a tax increase than a benefit that corporations actively sought—and that critics say would leave the affected pension funds in weakened condition.

The other would phase out a low-income housing tax credit meant to induce corporations to invest in such housing in return for somewhat lower taxes. Again, it is hardly the corporations that would be the primary losers were it to disappear.

Republicans have pointed to the corporate tax increases—they prefer to call them adjustments or reforms—as evidence that theirs is an evenhanded budget in which they squeeze their own traditional constituencies and not just those of the other side. But ''corporate tax increases,'' the principal burdens of which would likely fall on retired workers and lower-income renters, prove nothing of the kind.

Current law imposes a prohibitive penalty in addition to the corporate income tax on withdrawals of supposedly excess amounts from pension funds unless the money is used to help pay retiree health benefits. The House bill would greatly reduce the penalty and in effect ease the definition of excess while permitting withdrawals for any purpose an employer wished.

Billions would likely be withdrawn, and since the withdrawals would still be subject to tax, it's true that revenues would go up. But organized labor, the Clinton administration and such groups as the American Academy of Actuaries have warned that the soundness of a significant number of pension funds could well be threatened in the process. They note that the value of pension fund assets are volatile; they go up when the stock and other securities markets are strong but can just as easily turn down again. It's hard to know exactly where to draw the danger line in a matter such as this, but it's easy to know on which side to err. The Senate last Friday wisely decided to err on the side of caution and knocked a similar pension provision out of its bill by a vote of 94 to 5.

The phase-out of the housing credit was never in the Senate bill. The credit is one of the few remaining devices for adding to the stock of low-income housing in the country. The subsidized housing programs on the spending side of the budget are being cut back, if not shut down, even as the need for such housing continues to grow.

The credit is probably not the most efficient way to produce the housing, but it has been a steady source of added supply at relatively modest cost, and it would seem to be perfect Republican program in that the housing would be provided mainly through private initiative.

The House bill would use the proceeds from both these corporate ''tax increases'' mainly to finance the extension of other corporate tax breaks. For the corporate sector as a whole, they're a wash, while in social terms they would leave the budget more lopsided, not less. On these two issues, present law should be preserved.

[From the Philadelphia Inquirer, Oct. 3, 1995]

PENSION-MANIA

Workers and retirees will be hurt if Congress allows companies to raid pension funds easily.

It was a standard scam of the Decade of Greed: Corporate raiders skimmed off pension funds to pay their debt and line their pockets. Managements of companies such as Simplicity Pattern Co., Faberge Inc. and Pennsylvania Engineering Corp. removed a total of $21 billion from pension funds in the 1980s. Congress finally stopped this in 1990 with a prohibitive tax.

Lo and behold, only five years later, the House Ways and Means Committee has voted to end the special, 50 percent tax that has stopped companies from raiding pension funds. The panel's Republicans say, unpersuasively, the relief would apply only to pension funds holding millions more than they really need.

In reality, this change is a needless risk to workers, to retirees and to the federal corporation that safeguards the system. The Pension Benefit Guarantee Corporation is adamantly opposed to the change. Indeed, the PBGC says it would let companies use pension plans ''as tax-free corporate checking accounts.''

Considering how important pensions are to workers and retirees, it's not clear that the rules ought to be changed at all. When a company's pension-fund investments have done extremely well, creating a real excess, the company gets the benefit of going years without putting more money into the plan. Or, the company can transfer some or all of the excess, without penalty, to pay for health-care benefits for retirees.

Even those who say the 50 percent tax should be lowered must admit that the House Republican plan goes way too far. It proposes only a 6.5 percent tax on withdrawals of supposedly excess pension funds, and for the first half of 1996, no penalty at all!

This is a gimmick to raise revenue—since corporations would pay income tax on the pension money they withdraw. But lawmakers shouldn't be indulging in tax gimmicks at all, let alone one that could undercut the safety of pensions for millions of workers and retirees.

The biggest flaw in the House plan is how it defines a pension plan with truly ''excess'' funds: A plan that holds more than 125 percent of its current liabilities—that is, the pension benefits employees have already earned.

But the PBGC says that threshold isn't nearly high enough. A new report by a business group called the Committee for Economic Development, anticipating how baby boomers will burden the pension system, expresses similar concern.

The retirement security of American workers has been hammered in recent years by corporate downsizing, corporate raiders and the like. Now it's being shaken further by cuts in entitlements such as Medicare. A new raid on pension funds makes no sense whatsoever.

[From the Long Island (NY) Newsday, Sept. 21, 1995]

THE NEW TAX-FREE CORPORATE CHECKING ACCOUNT

(By Marie Cocco)

You can tell when something big is happening at the House Ways and Means Committee. The lobbyists all age by about 25 years and undergo sex-change operations, as the powerful replace the mere note-takers.

The power quotient was unimpressive this week as the panel crafted a measure billed as one to close corporate loopholes. Still lots of empty seats; still too many twentysomething women clutching cellular phones. And that got Rep. Jim McDermott (D-Wash.) wondering.

''Here we have a $10-billion tax increase and nobody cares,'' he noted. ''So you have to ask yourself, what's wrong here?''

An appropriate question. Here's the answer: The $10.5-billion tax ''hike'' innocuously labeled ''corporate pension reversions'' on the committee's charts is in fact an invitation for corporations with rich pension funds to raid the accounts and use the money however they wish. Golden parachutes. Higher stock dividends. Corporate jets. You name it.

Students of the 1980s will recall that during the heyday of the leveraged buyout, a fat pension fund often put a company ''in play.'' That is, the pension assets in excess of what was expected to be needed for retirees became a piggyback. Market-manipulators used the money to pursue other companies. Or a new owner who'd conquered a takeover target would terminate the pension plan, buy less generous annuities for the retirees and skim off the excess.

The Pension Benefit Guarantee Corp. says about $20 billion was siphoned from pension funds during this binge. But that's only about half the $30 to $40 billion the pension-insurance agency estimates would be drained out by reopening this scheme.

How does it work?

Under rules passed in 1990, a corporation can remove pension money without penalty only if the funds are used to pay retirees' health benefits. Otherwise, the company pays a stiff tax penalty on the withdrawal, in addition to income taxes.

The measure pushed through by committee Republicans would wipe out the penalty. Companies would pay only income taxes on the withdrawal. That's how the GOP estimates raising $10.5 billion in new revenue.

But that assumes corporations will actually pay taxes on the withdrawal. More likely, they will time them to coincide with tax losses. They could construct it so it's all a wash.

''It has the effect of creating a tax-free corporate checking account,'' said Assistant Treasury Secretary Leslie B. Samuels, who, with the Democrats on the panel, tried to dissuade the Republicans.

The opponents pointed out that even pension funds that are technically ''overfunded'' now could become underfunded with a stock market downturn or interest-rate change. They argued that pension money belongs to current and future retirees. They tried to warn them that, since the government insures pensions, the Republicans could be paving the way for the next savings-and-loan debacle.

The Republicans said Democrats just don't understand free markets. ''I can't believe that they don't understand our economic system!'' Rep. William Thomas (R-Calif.) shouted. Pension money should be used for productive investments, he argued, not left ''just sitting there doing nothing.''

Someone should let him know pension funds are the nation's largest source of capital; they own a fifth of all corporate stock.

That would clear up the free-market argument. But it won't save the Republicans from themselves.

Days ago, they howled about protecting pensions from the clutches of the Clinton administration. The Labor Department provides information on investments in things like hospitals and small businesses to pension managers; the managers control where to invest. The House abolished the program.

''Our message is simple,'' Majority leader Dick Armey (R-Texas) crowed. ''Keep your paws off our pensions.''

It's a good sound bite. But nothing more than that.

[From the Pittsburgh Post-Gazette, Oct. 1, 1995]

PENSION RAID—DON'T RAISE REVENUES BY THREATENING PENSION BENEFITS

In the 1980s, corporate pirates didn't need a map to find the buried treasure—it was right there in the pension fund.

High interest rates and a galloping stock market had made many funds flush. Frequently a company with a very healthy pension became a takeover target—leverage buyouts were followed by termination of the pension fund and the use of the excess cash to pay off debt.

If workers' welfare had been insulated from all the high-finance brinkmanship, perhaps it wouldn't have been an issue. But often the plans were replaced with lesser-value pensions or, on occasion, no pensions at all.

Starting in 1986, Congress set up a system allowing corporations to draw down excess funds, but with a small excise tax—10 percent at first, later raised to 15 percent.

But that didn't shield workers. Many overfunded pensions ended up being underfunded. Twenty of the top 50 underfunded pension plans had been subject to ''reversions,'' as the draw-down is called.

In 1990 Congress passed a 50 percent excise tax on businesses that terminate plans and fail to set up a successor plan with similar benefits. The tax is 20 percent on those that replace the plan. Reversions are allowed without penalty if the money is used to pay retirees' health benefits.

That's a fairly happy ending to the story. But watch out for the epilogue. Last week the House Ways and Means Committee voted to open pension plans up yet again. Plans that are funded at 125 percent or higher can be drawn down without penalty through June 1996. After that, the excise tax will be only 6.5 percent.

The gambit will raise $9.5 billion for the federal Treasury in corporate income tax, but congressional experts estimate that it will drain pension funds of some $40 billion in assets—double the amount that was drawn down in the 1980s.

The federal pension insurance program has decried the move. The three Cabinet secretaries that sit on its board—Commerce Secretary Ron Brown, Treasury Secretary Robert Rubin and Labor Secretary Robert Reich—cited a host of reasons why this is a bad idea.

A pension that is 125 percent funded on an ongoing basis may well be underfunded if it were terminated immediately and had to make good on its obligations. Most plans will not be terminated immediately, but some will and their beneficiaries won't be adequately covered. That will put a strain on the federal insurance system and will probably reduce benefits for some pensioners.

Even if the plans aren't terminated, interest rates and market conditions change. Plans that are overfunded today weren't three years ago and may not be three years from now. Keeping a cushion makes sense under those circumstances. In the 1980s, many overfunded plans that were drawn down ended up underfunded.

Another concern is that companies receive considerable tax advantages to contribute to pension funds, but will be allowed to withdraw with no penalty.

That will open the door to a lot of financial gamesmanship. Also, the pension raid would be encouraged despite the well-known need to bolster private savings.

Surely there are better ways to balance the budget then to gamble with the security of private pensions covering millions of Americans.

[From the Cleveland Plain Dealer, Oct. 3, 1995]

CUT NOW, PAY LATER

Congress should reconsider tax cuts rather than ask poor people and pensioners to pay for them.

Not surprisingly, members of Congress who approved a $245 billion tax cut earlier this year are struggling now with the delicate question of how to pay for such excess.

A bill recently adopted by the House Ways and Means Committee, for example, would help to finance the tax cut by raising about $39 billion over seven years. Some of the bill's provisions make sense. Others are downright foolish.

One of the most worrisome proposals would make it easier for companies to withdraw money from their pension funds. Under the bill, companies would no longer face severe penalties for withdrawals from pension funds as long as the maintained a cushion of 125 percent of the assets they needed to meet their pensions' liability. The proposal, which would allow companies to withdraw funds for any purpose, would increase federal revenue because companies must pay taxes on withdrawals.

Supporters of the change contend that a 125-percent cushion is adequate. But critics, including the federal Pension Benefit Guaranty Corp., warn that a seemingly comfortable cushion could vanish if the stock market tumbles, because many pension funds are heavily invested in the stock market.

Given the federal government's potential liability, and disasters like the savings and loan crisis, Congress should be wary indeed of loosening restrictions. Tough penalties on withdrawals were instituted precisely to avoid a taxpayer bailout of pension funds.

Another ill-advised House proposal would raise $23 billion by sharply reducing the earned income tax credit, which allows the working poor to receive a credit from the government even if they don't owe taxes. The Senate Finance Committee, meanwhile, is endorsing an even larger cut in the credit—$42 billion over seven years.

Lawmakers are hoping to limit the credit, which was expanded greatly in President Bill Clinton's 1993 economic package, in several ways. Some of the proposals merit consideration—including one that would make childless workers ineligible for the credit, and another that would take into account income from Social Security and other outside sources when determining eligibility for the credit.

Lawmakers should be wary, however, of reducing the value of the credit for the people it was principally intended to help—poor families struggling to survive on low wages. The earned income tax credit was designed to encourage poor breadwinners to take low-wage jobs instead of relying on welfare and related benefits. It is one of the last tax incentives that should be trimmed, not one of the first.

Congress clearly needs to balance its lopsided books. But lawmakers must take a long-term approach. Reducing pension protections and tax credits for poor breadwinners may swell the federal treasury in the short run. But such steps could increase government spending in the long run.

Senate Majority Leader Bob Dole, who raised the possibility Sunday of not providing the full $245 billion tax cut, is on the right track. If Congress wants to avoid blame for foolish tax increases, it should give up foolish tax cuts.

[The Harrisburg (PA) Sunday Patriot-News, Oct. 1, 1995]

PROTECT PENSION FUND ASSETS

During the wave of corporate buyouts in the 1980s, pension-fund monies were used to accomplish two-thirds of the largest mergers, according to Commerce Secretary Ron Brown. All told, about $20 billion was lifted from private retirement funds to facilitate corporate takeovers.

But if congressional Republicans have their way, that period of pension-fund raiding will seem modest.

Last week, the House Ways and Means Committee approved legislation that would allow corporations to remove $30 billion to $40 billion from pension funds over the next five years for other purposes. Republicans hope to capture about $9.5 billion of that in taxes to put toward balancing the budget.

In the process, they may well put some pension funds at risk. As most are government guaranteed, taxpayers could be the losers in the end, along with affected workers and retirees.

Proponents claim that the 25 percent cushion above current liabilities that the measure provides is more than adequate to protect the country's 11 million employees and 2 million retirees covered by private pension plans. In addition, they argue that if the surplus pension money is reinvested in plant and equipment it could mean more jobs and a stronger company.

According to Ways and Means Chairman Bill Archer, the proposal could actually make pension plans more attractive to business and encourage them to make larger contributions.

But as Labor Secretary Robert Reich noted, you couldn't prove that by what happened in the 1980s. An analysis by the federal Pension Benefit Guaranty Corp. found that of 50 pension funds on an underfunded watch, 20 experienced withdrawals in the 1980s of what were then considered surplus assets.

In addition, the agency said that an examination of 10 large pension funds found that the 125 percent limit was not sufficient to protect them if they were terminated because of corporate bankruptcy. Less than 90 percent of the money required to meet obligations would be available, according to the agency.

The agency further noted that funds currently considered sufficient could become underfunded by a modest shift in the market that reduced interest rates by one percent, combined with a 10 percent decline in the value of assets.

Even the pro-business Committee for Economic Development has warned that the present full-funded standard of 150 percent of liabilities is insufficient to ensure the long-term viability of pension funds.

The 1980s corporate-takeover frenzy, fueled in part by raids on pension funds, took a heavy toll on this country in terms of quality companies that were destroyed, thousands of jobs that were lost, damage inflicted on the environment to pay off debts, pension-fund depletions and the loss of employee trust in employers.

It boggles the mind to think that the stage might be set to go through that again, and at twice the rate of the 1980s.

[From the Fort Worth Star-Telegram, Sept. 22, 1995]

AND PENSIONS

And on the subject of ideas in new tax bills, one of the worst is the plan to allow corporations to withdraw money from their pension plans. The withdrawals would be taxed—an estimated $10.5 billion over seven years—but this is a bad idea for two reasons.

First, Americans are worried about their retirement years. What can they count on? Letting corporations use supposedly ''excess'' pension funds for other purposes merely adds to the public's unease about its old age.

Second, the federal Pension Benefit Guaranty Corp.—one of those federal insurance programs, like insured bank deposits, that are ignored until they cost the taxpayers billions of dollars—could have to rescue pension plans that become underfunded because of corporate withdrawals.

We do not need another S&L-style bailout because someone got greedy and saw a way to get more revenue without raising taxes.

[From the Spartanburg (SC) Herald-Journal, Oct. 2, 1995]

LEAVE PENSION FUNDS ALONE—CONGRESS SHOULDN'T ENABLE COMPANIES TO ENDANGER RETIREES' BENEFITS

Congress should back away from a plan to let companies spend ''excess'' funds in their pension programs.

The plan, which was approved by the House last week, is popular with businesses because it would allow companies to use funds that aren't needed to meet pension obligations.

It is popular with Republicans in Congress because it is expected to generate $9.4 billion in new federal revenue.

But it's likely to become unpopular with the rest of us if it ends up affecting our pensions, which it is likely to do.

A key question is: How much money in a pension fund is ''excess?''

The proposed measure would apply to companies that have at least 25 percent more money in their pension funds than is needed to cover benefits already earned by their employees.

About 40 percent of the pension funds insured by the government fall into this category. Companies are expected to spend up to $40 billion of this money if the law is passed.

But 25 percent is not much of a safety margin when dealing with financial investments. The Pension Benefit Guaranty Corp., the government agency that insures pensions, requires more cushion than that when a company terminates a pension plan.

Most pension plan funds are used to buy stocks, bonds and other investment vehicles. The growth of those investments has led to the excess funds in the pension plans.

But what happens if the stock market plunges? If the investments of a plan go sour? All of a sudden, a pension plan that had excess funds no longer has the funds it needs to meet its obligations.

Who pays the pensions for the retirees then?

Taxpayers, through the Pension Benefit Guaranty Corp.

Does it sound familiar? Think Savings and Loan.

Companies were allowed in the '80s to use excess pension funds for business use. About $20 billion was taken out of pension funds then, according to the Guaranty Corp. The money often was used to pay for leveraged buyouts and mergers.

Workers at many of those companies had their pensions replaced by plans with much lower benefits.

In response, Congress placed a 50 percent excise tax on money taken from pension plans. The current proposal would eliminate that tax.

It should not be allowed to become law.

DON'T SUPPORT PENSION RAIDS

Smoke and mirrors would be preferable to a proposal approved by the House Ways and Means Committee last month to let healthy companies withdraw from their workers' pension funds.

The proposal is designed, primarily, to raise $10 billion in federal tax revenue at a time when the government is desperate for money. Giving companies access to large sums of money would also accommodate business expansion, helpful to the economy just about any time.

The problem is it would subject workers' pensions to unacceptable risk, which seems especially unwise during a time of such uncertainty for Social Security. And in the event of a few large defaults, it could pin the cost of a huge bailout by the federal Pension Benefit Guaranty Corp. on taxpayers. After the federal savings and loan debacle, that's the last thing we need.

The Republicans' plan is to let companies borrow from pension plans that have at least 125 percent of the money they are estimated to need to pay current employees' pensions. While such loans are now allowed, the government imposes penalties on them of 20 percent to 50 percent, and it taxes the money as ordinary income. Consequently, most companies choose other ways to raise money. Under the proposal passed by the Ways and Means Committee, the penalty would be eliminated until next July 1 and raised to only 6.5 percent thereafter.

This would undoubtedly encourage hundreds of healthy companies to raid their pension funds, providing a windfall for the government, which would continue to collect taxes on the money taken out. If everything goes according to plan, there wouldn't be a problem. But if the economy stumbled and the stock market tumbled—most pension funds are heavily invested in it—look out below.

In an instant, pensions would be dangerously underfunded, a situation that, uncorrected, could require massive infusions of cash from the PBGC. Without them, pension obligations might not be met. And with them, the government agency might have to turn to taxpayers—just as the Federal Deposit Insurance Corp. did when it had to bail out the S&Ls. A chilling thought.

Not surprisingly, there is widespread opposition to the plan among labor unions and the American Association of Retired Persons. The head of the PBGC is also against it. And that ought to convince President Clinton to veto the measure should the Republicans, as expected, muster enough votes to get it through Congress.

[From the Joplin Globe, Oct. 5, 1995]

PROPOSAL WOULD ALLOW CORPORATIONS TO RAID PENSION PLANS

It appears that little is immune from Congressional budgetary deliberations. If it can be cut or it will raise money, it seems to be fair game for Congress.

Now, pension funds are among the fair game.

The House Ways and Means Committee has approved a proposal to allow corporations to raid their pension plans, raising billions for the government through income taxes paid on the withdrawals.

Proponents say the measure would lead to greater retirement protection while raising $9.5 billion for the government. Corporations support the measure because they say withdrawal of excess assets from pension funds can help workers if the money is used to expand and create more jobs.

Opponents say it would endanger the retirement security of millions of Americans, just like it did in the 1980s, when companies legally tapped pension plans, leaving many under-funded as a result.

Among the opponents are three cabinet secretaries who are members of the Cabinet-level board overseeing the federal Pension Benefit Guaranty Corp. (PBGC), which insures pension plans and takes over those that fail.

They say the proposal would trigger withdrawal of up to $40 billion from pension plans in the next five years—twice that removed by companies during the corporate takeover frenzy of the 1980s.

Under the provision, withdrawals from pension funds would be allowed at any time and for any purpose. Currently, withdrawals are allowed only for use in retirees' health benefits. The proposal would require corporations making withdrawals to leave a cushion of 25 percent more than needed to meet current liabilities.

Allowing companies to dip into their pension funds would lead more of them to make large pension contributions for cushioning or, if they don't already offer pensions, to create them, said Congressman Bill Archer, R-Texas, Ways and Means Committee chairman.

Labor Secretary Robert Reich, one of the PBGC board members, said it didn't happen that way in the 1980s. He said that at that time the money often was used to finance leveraged buyouts, sometimes leaving pension plans underfunded.

Luckily, participants in plans that are underfunded won't be blind-sided. The Retirement Protection Act, approved last year, will offer some protection.

Beginning this year, the act requires companies with more than 100 employees in under-funded pension plans to notify workers if the plan is less than 90 percent funded. That means, for example, that an 80 percent-funded plan could pay only 80 percent of its promised benefits, if the plan failed. The new ruling will apply to companies with fewer than 100 plan participants beginning next year.

These notifications must provide information about the plan's funding status and explain the maximum amount of benefits the PBGC would pay if the plan failed, said Robert Pennington, an academic associate at the College for Financial Planning, a division of the National Endowment for Financial Education. The maximum benefit the PBGC's insurance fund now pays to a participant is $2,574 a month.

The total pension shortfall of plans governed by the PBGC is $71 billion. Some plans are under-insured by more than 40 percent, according to the PBGC, whose own insurance fund is under-funded.

If you receive a notice that your plan is under-funded, Pennington said these are some of the things to consider:

How much is the plan under-funded?

Find out how the benefits are being funded.

Think about building a nest egg to cushion the losses.

[From the Burlington (IA) Hawk Eye, Oct. 1, 1995]

PENSIONS AT RISK

Congress: New budget plan would let companies raid funds.

Hidden in the congressional budget plan is a proposal that would allow unprecedented abuse of employee pension funds.

Never at a loss for an analogy, Labor Secretary Robert Riech said ''You're going to see raids on pension assets that will make the train robberies during the days of Jesse James pale by comparison.''

The provision would let companies withdraw funds from pension funds if their assets exceed 125 percent of the plan's current liability.

Companies could use the money for any reason.

The provision actually encourages companies to withdraw money by abating the federal excise tax on withdrawals made before next July. After that a 6.5 percent tax would apply.

Republicans gleefully predict that $40 billion could be withdrawn over the next five years. That could produce a windfall in taxes.

Their other argument is that companies could use the money to expand or create jobs, although the law does not require that. Companies could just as easily pay bonuses to top executives or finance the campaigns of friendly politicians.

A flurry of withdrawals would create a nightmare for pensioners—and taxpayers.

Since 1974, more than 2,000 pension funds have failed. They were bailed out by the Federal Pension Benefit Guaranty Corp.

The fund insures 56,000 pension plans and 33 million employees. It effectively obligates taxpayers to guarantee pensions when private businesses do not.

The obligation is substantial; at last report, U.S. pension funds were underfunded by $71 billion.

Reich argues soundly that pension plans whose principal is depleted today might not be able to meet their long-term obligations.

Lost in the debate is why companies should be allowed to raid pension funds at all. Or at least without any obligation to assure their solvency.

A compromise might allow companies to borrow, not simply appropriate pension funds. That would offer employees and taxpayers a reasonable assurance that the pensions will be there, while giving companies a low-cost and renewable source of money for expansion or other legitimate purposes.

But then reasonable solutions are not what Congress is necessarily searching for.

[From the Tribune, Meadville (PA), Sept. 17, 1995]

DON'T LET COMPANIES RAID PENSION PLANS—SURPLUSES MEAN FUTURE SECURITY FOR WORKERS

A House committee last week passed a new tax bill that would not only eliminate the earned income tax credit for many poor families, but would jeopardize the retirement income of millions of American workers.

The bill would allow corporations to spend surplus money in pension plans rather than preserve the funds for the health of the plans to ensure the future security of their work forces.

Companies with 25 percent more money in their pension plans than is needed to cover benefits would be able to use that money as they see fit. About 40 percent of the 58,000 pension plans insured by the Pension Benefit Guaranty Corp. currently fit that description, according to congressional estimates.

Legislators are looking at the funds as a means to help raise revenue to reduce the deficit. If companies were to use the money, it would generate about $10 billion in tax revenue over the next seven years.

The irony is that many of the pension plans in question have developed surpluses because companies use them as a tax dodge. By dumping money into the pension plans, the corporations are able to reduce their tax liability. If Congress wants to generate more tax revenue, it should legislate against the misuse of legitimate pension funds.

It is likely given the experience of pension fund raids in the 1970s and 1980s, that new raids by companies would help fund the current rage toward big mergers, resulting in untold layoffs and lost jobs.

Some of the pension surpluses also reflect accounting maneuvers rather than actual assets, raising the prospect that nationwide pension raids would jeopardize the solvency of some plans.

That's why the Pension Benefit Guaranty Corp. opposes the plan, which should be defeated or vetoed.

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REPUBLICANS SHOULD TAKE NOTICE OF ELECTION RESULTS IN VIRGINIA

The SPEAKER pro tempore (Mr. BILBRAY). Under a previous order of the House, the gentleman from Virginia [Mr. PAYNE] is recognized for 5 minutes.

Mr. PAYNE of Virginia. Mr. Speaker, the Commonwealth of Virginia held an election yesterday, and the Republicans in this House ought to sit up and take notice at the results. Yesterday's outcome says a lot about the direction of this country, our priorities here in Congress, and public attitudes about the Republican tax cut.

George Allen, who is our State's Republican Governor, tried to make the election a referendum on his program of tax cuts. Under the Governor's plan, which was proposed and debated during this year's General Assembly session, deep tax cuts would be paid for by slashing spending for a host of vital public programs.

The Governor proposed $2.1 billion in long-term tax reductions, but only identified $400 million in spending cuts to pay for them. Future Governors would have been left to make the cuts that would have been necessitated by the Governor's tax plan.

And when it comes to the $400 million in spending cuts Governor Allen did specify, here is what was in the Governor's plan:

$10.5 million designed to keep students from dropping out of school;

$3.2 million designed to help low-income students finish high school;

$1.3 million for child health clinics;

$7.3 million for 4–H programs;

More than $90 million total for education, including Virginia's colleges and universities.

And on and on it goes. And when the Democratic majorities said no to this agenda, the Governor called them obstructionist. He pledged an all out effort to defeat the Democrats at the polls. And that is exactly what he attempted to do.

Does that sound familiar? Deep tax cuts that are paid for by deep cuts in important programs?

This is exactly the course that this House is following right now in the Republican Budget Reconciliation Act.

The people of Virginia got a good look at the Allen plan, and despite the Governor's tireless campaigning, they rejected his extreme program by a big margin.

They defied the odds and kept the Virginia General Assembly, in Democratic hands.

Under the leadership of the Democratic Party, in the General Assembly Virginia enjoys a balanced budget, a triple A bond rating, and the reputation as one of the best fiscally managed States in the country. We will yield to no State in our belief in fiscal conservatism. But our citizens know that a tax cut that will give them a few dollars more each month isn't worth diminished colleges and universities, reductions in law enforcement, cuts in health care programs.

The message from yesterday is clear: people want responsible government, not a radical program that will gut programs that educate our children, protect our seniors, and help to make our communities strong. They also demand fiscal responsibility.

Having had the opportunity to personally campaign with many of our Virginia candidates, I am more convinced than ever that the course we are pursuing here in Congress is wrong. A budget reconciliation act that cuts Medicare, Medicaid, and other domestic initiatives just to pay for a $245 billion tax cut sounds a lot like the Republicans' program in Virginia. And we see how far it got them.

It's a lesson that we ought to learn here in Washington.

NEW GOVERNOR OF KENTUCKY

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Kentucky [Mr. WARD] is recognized for 5 minutes.

Mr. WARD. Mr. Speaker, I do not think I will be using the entire 5 minutes this evening, but I wanted to stand up to congratulate the new Governor of Kentucky, Gov. Paul Patton. He has been Lieutenant Governor for 4 years. Prior to that he was county judge of Pike County deep in Appalachia where he really turned things around. He really made things run differently from the way they were run before. So we are very proud in Kentucky that at this time of political upheaval, at this time of uncertainty and a negative feeling about anyone who is in office, that the Democrats, even though we have been in office for 24 years in Kentucky, have had the opportunity to send a new Governor to the Governor's mansion.

I mention this because we, in the last couple of weeks of the campaign, ended up talking about a number of national issues, issues which relate to what we are doing here. I think it is important to make note of the fact that these issues seemed to show us, the way the voters reacted to these issues, seemed to show us that the voters are very concerned about the changes that are being made here to the Medicare Program.

These changes to the Medicare Program really do seem to cut at the heart of the commitment that we have made