Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

CONFIDENTIAL

To: Advisory Committee Members

From: Andrea Schneider, Chief Negotiator and Director, Corporate Finance and Negotiations Department aes

12/05/01

Subject: Update of Developments in Major Bankruptcies October 15, 2001 to December 5, 2001

Major New Bankruptcies

Enron. 26,000 participants. Enron, the largest U.S. energy trading company, filed for bankruptcy in New York in December 2001. The company's headquarters are in Houston, TX; 4,000 headquarters employees have lost their jobs. The underfunding number is being updated.

[OUTSIDE SCOPE]

Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026
(202) 326-4010

Office of the Executive Director

October 11, 1995

Mr. Philip J. Bazelides
Vice President
Corporate Human Resources
P. O. Box 1188
Houston, Texas 77251-1188

Dear Mr. Bazelides:

Recently the Pension Benefit Guaranty Corporation was called upon to provide the PBGC Board of Directors and Members of Congress information on the impact of an amendment proposed by the House Committee on Ways and Means to broaden Section 420 of the Internal Revenue Code. The amendment would make it significantly easier for companies to take money out of defined benefit pension plans.

In response, the PBGC reviewed and reported on past instances of reversions involving pension plans that are now underfunded. The PBGC cited the Enron Corporation as a company that removed $232 million in assets from its pension plan in 1986 and noted that the plan was most recently reported as being underfunded by $83 million.

In your letter of October 2, you state that this does not accurately reflect Enron's actions concerning its retirement plan. While your letter raises several interesting points and provides considerable additional detail, the facts remain that: In 1986 the Enron Corporation terminated its previous pension plan, and took a reversion of $232 million; and, in the most recent complete reporting of its financial condition, the Enron Corporation pension plan was underfunded by $83 million.

Regarding the 1986 reversion, you note in your letter that ". . . the assets taken from the plan were rolled over into an Employee Stock Ownership Plan." This ESOP was set up in combination with a successor defined benefit plan in a "floor offset" arrangement. While the increase to date in the value of Enron stock held by the ESOP is good news for your employees and the federal pension insurance system, the establishment of a floor offset arrangement puts Enron employees and the PBGC at significant risk should the pension plan ever be terminated in a distress situation. Congress addressed the risks created by floor offset arrangements in the Omnibus Budget Reconciliation Act of 1987 by prohibiting the establishment of these floor offset arrangements for the future.

Your letter agrees with the PBGC's report that, as of December 31, 1993, the plan was underfunded by $82.5 million. This is the most recent publicly available

Mr. Philip J. Bazelides
Page 2

information on the unfunded termination liability of the plan. The PBGC has yet to analyze and release information with respect to 1994 funding levels for the plans of all companies.

Finally, you note that Enron is basing its plan funding decisions on ongoing plan assumptions that show the plan currently has unfunded vested benefit obligations of only $11.6 million. This amount significantly understates the Enron plan's benefit liabilities were it to terminate for any reason. This is the very issue -- the difference between the "current liability" and the "termination liability" of pension plans -- that the PBGC focussed on in its report. For this reason, we do not use ongoing plan assumptions to estimate the risk plan underfunding poses to workers and the federal pension insurance system.

I trust this letter explains our views on this matter.

Sincerely,

William Posner

William Posner
Deputy Executive Director
and Chief Operating Officer

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Corporate Policy and Research Departme

FACSIMILE COVER SHEET

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NUMBER OF PAGES: 5 (includes cover she

REMARKS/NOTES:

As discussed.

ENRON CORP

Philip J. Bazelides
Vice President
Corporate Human Resources

P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-5877

October 2, 1995

Mr. Martin Slate
Executive Director
Pension Benefit Guaranty Corporation
1200 K Street N.W.
Washington, D.C. 20005-4026

Dear Mr. Slate:

Enron Corp. believes it is important to respond to the mischaracterization of our Retirement Plan data conveyed during the Pension Benefit Guaranty Corporation (PBGC), the Department of Labor and Department of the Treasury press conference on September 26. Any of our almost 7,000 employees who read the resulting press accounts of this news conference were no doubt misled about the viability of our company's pension plan. We feel that we owe it to our employees to correct misconceptions about Enron's pension plan relative to the PBGC's method of compiling and interpreting the plan data.

During the press conference, PBGC officials pointed to Enron Corp. as an example of a company that took an asset reversion from an overfunded pension plan, and now has an underfunded pension plan. A list distributed at the press conference indicated that Enron took a reversion of $232,200,000 as of June 30, 1986 and, as a result, currently has an underfunded vested liability of $82,500,000.

- Enron, in fact, did not take an asset reversion. Instead the assets taken from the plan were rolled over into an Employee Stock Ownership Plan (ESOP). This ESOP was set up in a "floor plan" arrangement with the continuing pension plan so that the assets in the ESOP, as they were allocated to employee accounts, would eliminate future pension accruals. When the ESOP was set up in late 1986, Enron stock was purchased at around $38 a share. Today, after splitting twice, the stock is at between $34 and $35 a share. Thus, it has almost quadrupled in value in the eight years since the ESOP was established. This has resulted in a tremendous benefit for Enron's employees and, due to the "floor plan" arrangement, a great benefit for the PBGC.

  The $82,500,000 unfunded vested benefit listed in the September 26, 1995 PBGC press release is as of December 31, 1993. This unfunded vested benefit amount has been superceded by the data requested and received by the PBGC on September 18, 1995, which shows Enron's unfunded vested benefit amount as of December 31, 1994 to be $44,848,000. The 1993 and 1994 data was provided to the PBGC on a voluntary basis. Also, in both cases, the assumptions used by our plan's actuary were prescribed by the PBGC, are intentionally conservative to reflect a plan termination, and have no basis in law or regulation.

- By law, Enron must fund the plan on realistic assumptions for an ongoing plan as opposed to a plan termination. Reflecting this basis, the unfunded vested benefit obligation for the plan as of December 31, 1994 is $11,570,503. This amount is certified by the plan's actuary and monitored by the IRS.

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- As stated above, the Enron Plan currently has unfunded vested benefit obligations of $11,570,503. This unfunded liability did not come from the accrual of additional benefits by active employees, nor did it come from poor asset performance (on the contrary, assets have returned an annual rate of 12.28 percent since 1987). Rather, this unfunded liability has come from plan amendments providing additional benefits to existing retired employees. These amendments include the addition of a postretirement surviving spouse death benefit, an ad hoc increase in pension benefits to reflect cost-of-living changes, and special early retirement benefits. The gradual funding created by plan amendments is a fundamental aspect of the law. In fact, under IRS rules, the liabilities created by plan amendments cannot be funded more rapidly than over ten years.

  In total, these benefit increases have a current value of approximately $45,000,000 That only $11,570,503 remains unfunded is an indication of Enron's sound funding policy.

We believe the representation of the financial status of Enron's Retirement Plan was inaccurate and misleading based on: (1) The most recent data requested by the PBGC, although in the hands of the PBGC, was not utilized; and (2) The mischaracterization of the use of the $232,000,000 in assets taken from the Retirement Plan in 1986. Consequently, we request that you delete Enron Corp.'s name from any future example of companies which have taken a pension plan reversion and have significant unfunded pension plan liabilities. We would be pleased to discuss this with you further.

Sincerely,

Philip J. Bazelides

Philip J. Bazelides
Vice President of Corporate Human Resources

c The Honorable Bill Archer

PBGC
U.S. GOVERNMENT AGENCY

FACTS

Pension Benefit
Guaranty Corporation
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PENSION REVERSION: REMOVING PENSION DOLLARS

BACKGROUND: The Congress is considering a proposal that could take us back a decade to the days when pension plans were raided and public confidence in the private pension system was undermined.

During the 1980's, when pension assets grew with the stock market, companies began to tap into the pension funds set aside tax-free for their employees' retirement. More and more, companies terminated overfunded pension plans, purchased annuities for their employees, and pocketed the excess assets. Companies took away more than $20 billion from over 2,000 pension plans, covering nearly 2.5 million workers and retirees, until Congress stepped in and put a stop to the practice.

In 1990, except for certain limited transfers to cover retiree medical expenses, Congress imposed a 50 percent excise tax on any reversions of pension funds, or 20 percent if the companies replaced a pension plan with a new plan. Congress made it costly for companies to take assets from their pension plans and the raids on pension plan assets ceased almost entirely.

Pension underfunding of billions of dollars is concentrated in certain sections of heavy industry (airlines, automobiles, steel, and tire). The Retirement Protection Act of 1994 (enacted as part of GATT) is improving pension funding and strengthening the federal pension insurance agency.

Under a proposed change being considered by the Congress as a means to increase tax revenues, companies would be allowed to take money away from pension plans that they say are more than 125 percent funded and use the funds freely for any purpose, without informing their workers. There would be no excise tax if they remove the money before next July and, after that, a penalty of 6.5% would be charged. Some 22,000 pension plans, covering about 11 million workers and 2 million retirees, have assets in excess of 125 percent of current liability.

The Congressional Joint Committee on Taxation has stated that the proposal could take $30 to $40 billion away from pensions – more than ever before – once again threatening retirement security and the pension insurance program.

ISSUES:

- <u>A pension plan funded at 125% of current liability is substantially underfunded on a termination basis.</u>

  Interest rate, mortality and retirement assumptions are quite different in calculating the funding level of an on-going plan and valuing a terminated plan. An analysis of 10 large pension plans insured by the PBGC showed that, if funded at the 125 percent level, the funding level would fall to an average 87% on a termination basis. This could significantly increase pension underfunding and the exposure of the pension insurance system.

- <u>A plan that is overfunded today can quickly become underfunded with a change in interest rates and asset values.</u>

  A reduction in the interest rate of 1 percentage point together with an asset reduction of 10% reduces the funding level from 125% to 96%.

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(more)

- <u>Companies that have taken reversions also have significantly underfunded pension plans that saw little or no improvement.</u>

  Twenty companies that took money from overfunded plans subsequently appeared on one of PBGC's lists of 50 companies with the largest underfunded plans and 36 that missed the list's threshold last year also had taken reversions in the 1980's.

- <u>Pension plans subjected to reversions in the past have become underfunded over time.</u>

  Enron Corporation took $232 million from a pension plan in 1986 which is now underfunded by $82.5 million.

- <u>People can get hurt.</u>

  Pacific Lumber Company was taken over, in a leveraged buyout, by the Maxxam Group. Pacific Lumber [was a target for the takeover because it] had a well-funded pension plan. After the takeover, Maxxam terminated the plan and took over $50 million, which helped to finance the costs of the leveraged buyout. When the plan terminated, Maxxam purchased annuities from Executive Life Insurance Company of California, which subsequently failed.

- <u>Pension funds can be used for corporate raiding.</u>

  When a foreign company took over the A&P markets in 1982, it immediately terminated A&P's pension plan and stripped out over $270 million in assets, enough to repay it for the entire cost of the acquisition. The foreign owners then down-sized the company and ended the long-standing A&P practice of giving benefit increases to retirees to protect them from inflation. This opened the way for corporate raiders to use reversions to finance takeovers. In two-thirds of the largest buyout transactions in the 1980's, pension funds were used.

CONCLUSION: The proposal allows pension plans to be used as tax-free corporate checking accounts. The proposal would reduce the national savings rate, at a time when there is almost universal agreement that it is already too low. Taking money away from pension plans would reverse the progress made to shore up pensions and the federal insurance program. If companies remove pension assets and are later unable to fund promised benefits, the government's Pension Benefit Guaranty Corporation would have to pay them. Taxpayers have already paid a hefty price to bail out the savings and loan institutions.

Today's debate: **PENSION PROTECTION**

Attempt to trim deficit puts pensions in danger

OUR VIEW: Opening pension surpluses to corporate raids hurts pensioners, taxpayers and the economy.

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.

Pension Benefit Guaranty Corporation
PBGC
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Office of the Executive Director

September 27, 1995

The Honorable Robert B. Reich
Secretary of the Department of Labor
Chairman, PBGC Board of Directors
Washington, D. C. 20210

Dear Mr. Secretary:

You asked that the Pension Benefit Guaranty Corporation provide a report on the impact of a measure reported by the House Committee on Ways and Means that would substantially broaden Section 420 of the Internal Revenue Code. This measure would allow employers to remove assets from pension plans and use them for any purpose.

In the 1980's, over $20 billion was removed from the retirement system. A series of excise taxes culminating in 1990 effectively brought an end to this activity. The Joint Committee on Taxation has estimated that the proposed amendment to lower the excise tax and expand the availability of pension monies will allow employers to take $30 to $40 billion from retirement plans in the next five years.

Our analysis shows that removal of these funds would leave many pension plans with insufficient resources to protect retirees and the PBGC. These pension plans would not be adequately funded to pay all benefits should they fail. This risk could grow with changes in interest rates and asset values, or if companies experience financial difficulty.

The report follows. We look forward to your review.

Sincerely,

Martin Slate

Martin Slate
Executive Director

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Removing Pension Assets: Risks to Retirees and the Federal Pension Insurance Program

PBGC
U.S. GOVERNMENT AGENCY

Pension Benefit Guaranty Corporation
1200 K Street, N.W.
Washington, DC 20005-4026

September 1995

INTRODUCTION

The Pension Benefit Guaranty Corporation was established by the Employee Retirement Income Security Act of 1974 to protect worker benefits. When a defined benefit pension plan fails, PBGC steps in to pay benefits.

PBGC protects the retirement incomes of nearly 33 million American workers - one of every four working persons - in about 56,000 single-employer pension plans.[1] Since 1974, PBGC has assumed responsibility for paying the pension benefits of 370,000 people in 2,000 failed plans. PBGC pays the pensions of former workers in such well-known companies as Eastern Airlines, Pan American Airways and Wheeling-Pittsburgh Steel Corporation. Last year, the agency paid out over $720 million in benefits.

About 80 percent of all pensioners receive full benefits from the PBGC. Others may have their benefits substantially reduced because the PBGC does not guarantee all benefits. [2]

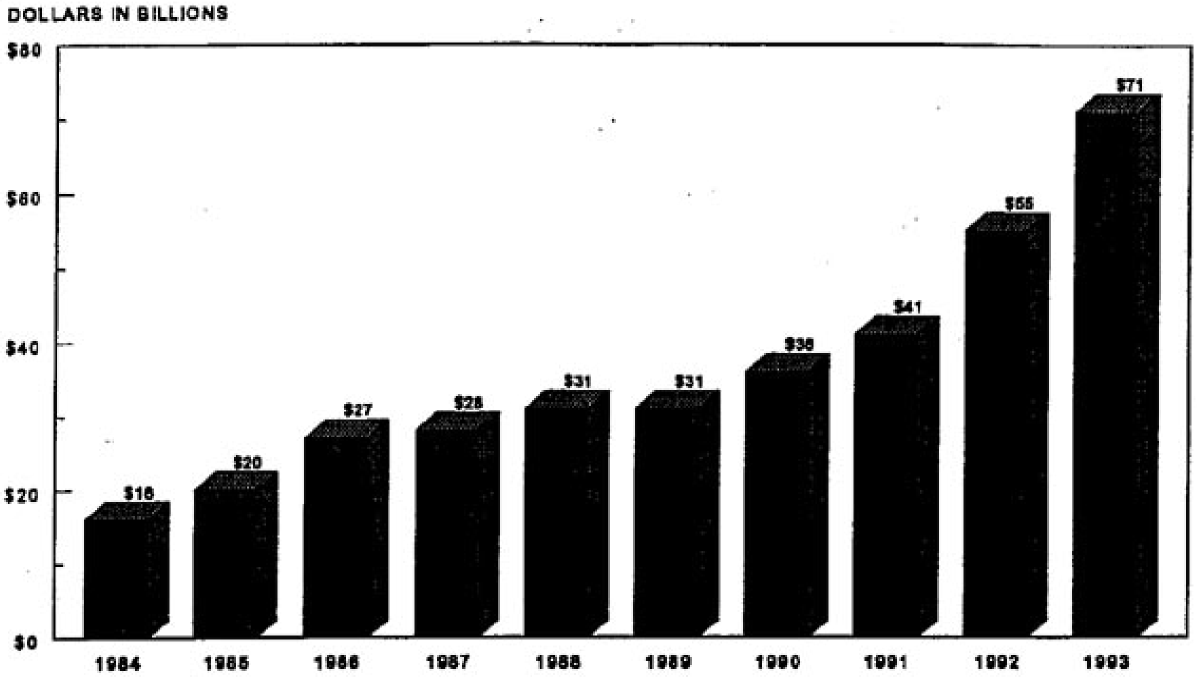
TRENDS IN FUNDING LEVELS OF INSURED PLANS

Overall the defined benefit system is healthy, with assets of $904 billion and liabilities of $891 billion in FY 1994. Over 75 percent of the plans insured by the PBGC are adequately funded.

Underfunding

Pension underfunding in the balance of the plans insured by the PBGC became a major concern in the past decade. Underfunding among these plans climbed from $16 billion in 1984 to $71 billion in 1993 [Table 1]. About 8 million workers and retirees are in underfunded plans. As companies with large plans failed in bankruptcy or liquidation, PBGC accumulated a deficit of $1.2 billion. To address the risk to workers and the pension insurance program, the Administration proposed, and the Congress passed the Retirement Protection Act of 1994. The Act promises to strengthen pension funding and shore up the pension insurance system over the next 15 years.

TABLE 1: AGGREGATE UNDERFUNDING 1984-1993



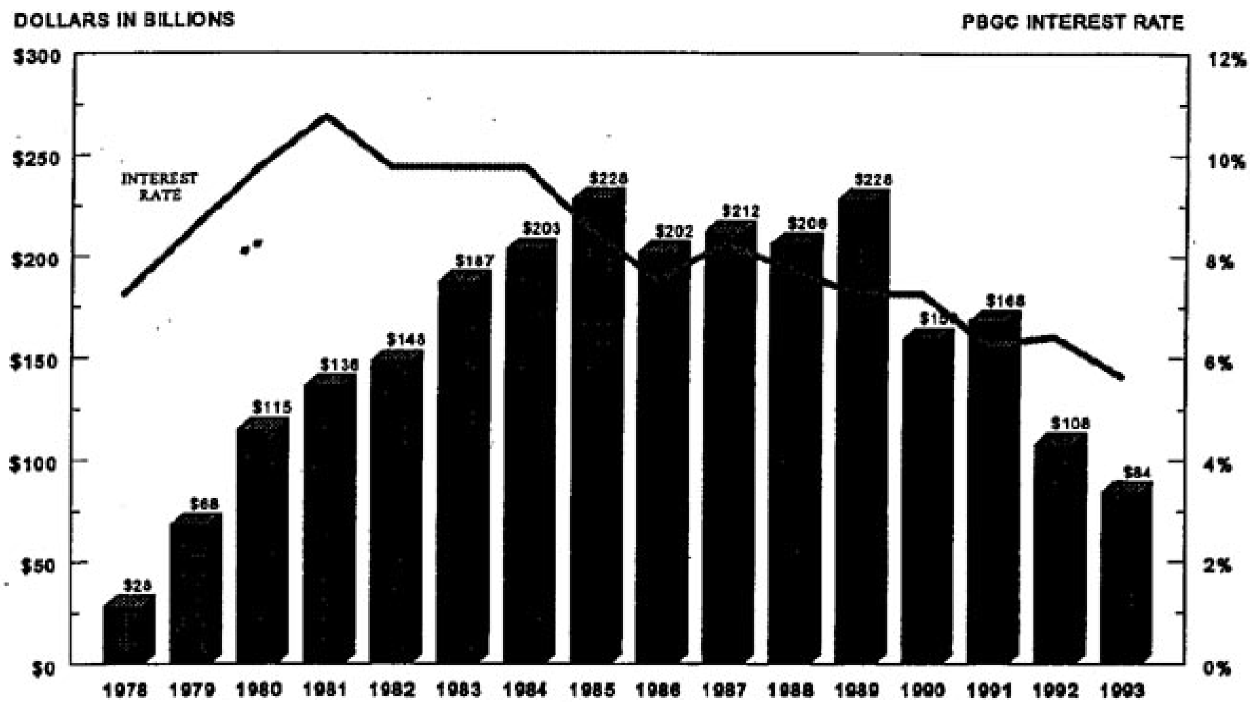
SOURCE: 1978-1987 FORM 5500 FILINGS FOR SINGLE-EMPLOYER PLANS WITH 100 OR MORE PARTICIPANTS
1988-1993 COMPUSTAT PC-PLUS CORPORATE DATABASE
ALL DATA AS OF END OF YEAR, CONSTANT 1993 DOLLARS
LIABILITIES USED TO CALCULATE UNDERFUNDING ADJUSTED TO PBGC IMMEDIATE RATE

Overfunding

Overfunding has fallen in recent years, in good part because of the decline in interest rates. From a high of $228 billion in 1989, overfunding was reported in 1993 at $84 billion [Table 2]. Projections show that recent interest rate increases could result in overfunding rising to as much as $200 billion in 1994. Assets in excess of the 125 percent current liability could make up half of this amount.

Changing interest rates can quickly leave pension plans with lower levels of assets to absorb the impact of corporate financial difficulties. Allowing corporations to remove assets from pensions must be viewed in this context. Proposals to allow companies to remove up to $40 billion over the next five years from plans with assets in excess of 125 percent of current liability would deplete this excess by 40 percent, raising concerns about the further weakening of plan funding as changes in interest rates or asset values from stock market fluctuations occur.

TABLE 2: AGGREGATE OVERFUNDING 1978-1993



SOURCE: 1978-1987 FORM 5500 FILINGS FOR SINGLE-EMPLOYER PLANS WITH 100 OR MORE PARTICIPANTS
1988-1993 COMPUSTAT PC-PLUS CORPORATE DATABASE
ALL DATA AS OF END OF YEAR, CONSTANT 1993 DOLLARS
LIABILITIES USED TO CALCULATE OVERFUNDING ADJUSTED TO PBGC IMMEDIATE RATE

HISTORY OF REVERSIONS

Pension assets are held in trust for the exclusive benefit of plan participants and their beneficiaries. Prior to the 1980's, "reversions" of assets to employers were rare. Assets reverted to employers only upon plan termination after all benefits to plan participants were satisfied.

As pension assets grew with the rising stock market in the 1980's, corporations sought ways to revert "excess" pension funds. In 1982, when the Tengelmann Group, a German company, took over the A&P grocery chain, it immediately terminated A&P's pension plan, and stripped out $270 million in assets. In 1983, the Government issued guidelines facilitating reversions. [3]

From 1982 to 1990, over $20 billion was taken from 2,000 retirement plans covering 2.5 million workers and retirees. From 1982 to 1985 the size and number of reversions grew rapidly: $404 million reverted in 1982 - $6.7 billion reverted in 1985. The biggest reversion came in 1986 when Exxon took $1.6 billion out of its pensions. [Table 3]

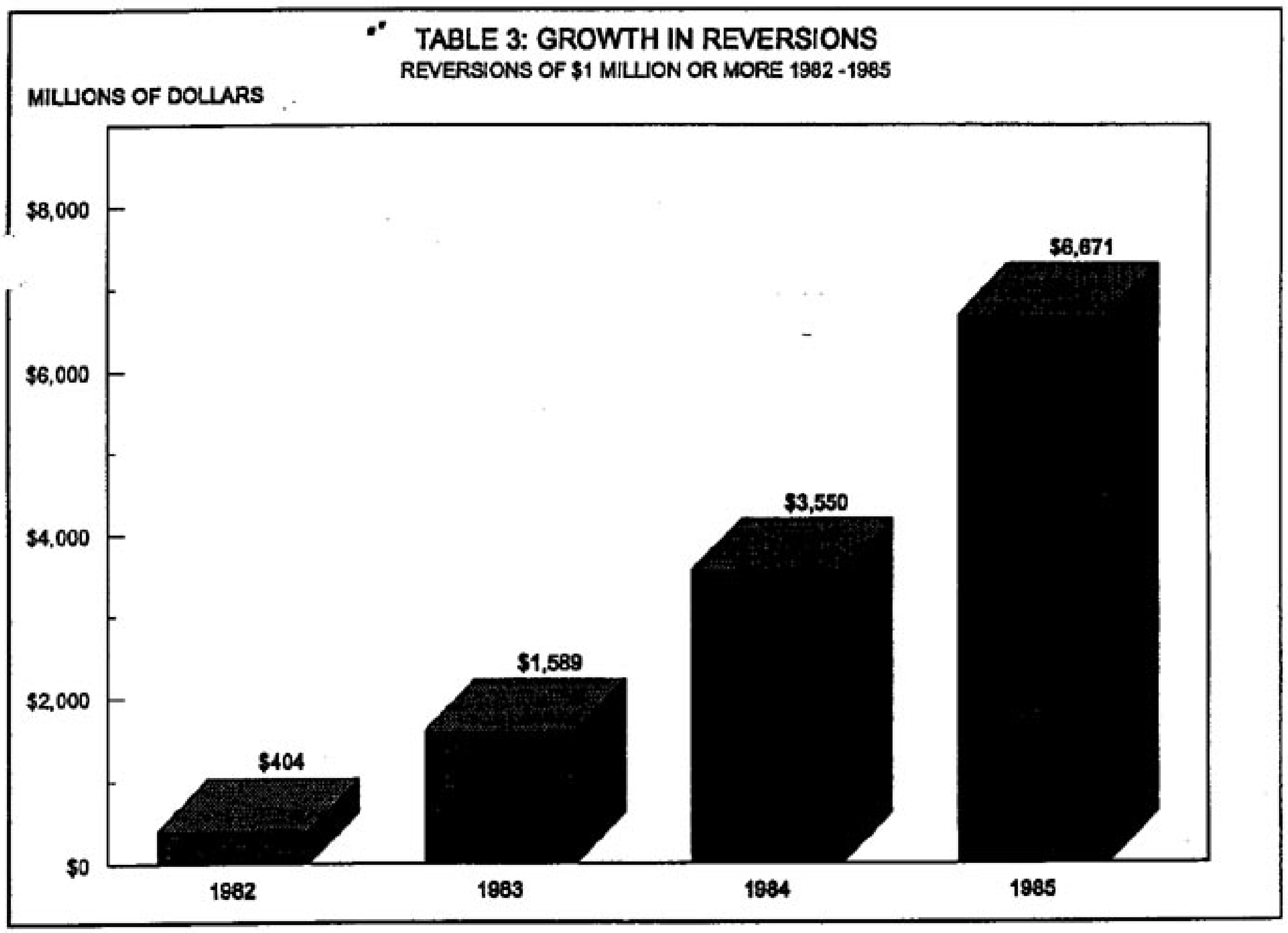


TABLE 3: GROWTH IN REVERSIONS
REVERSIONS OF $1 MILLION OR MORE 1982 - 1985

It has been reported[4] that pension funds were used in two-thirds of the largest buyout transactions in the 1980's. The Tengelmann Group used the $270 million in pension money to finance its takeover of A&P. The takeover was followed by a large downsizing and the end of A&P's longstanding practice of giving retirees cost-of-living increases in their benefits. Some companies, such as Union Carbide, which took $504 million from its pensions, took reversions to avoid becoming the targets of hostile takeovers.

The spate of reversions resulted in immediate difficulties for some pensioners. The Pacific Lumber Company, a family-owned forest products company located in Northern California, was taken over in a leveraged buyout by the Maxxam Group. Pacific Lumber was a takeover target in part because it had a well-funded pension plan. After the takeover, Maxxam terminated the plan and took a reversion of over $50 million to pay off debt associated with the leveraged buyout. Maxxam purchased annuities for its participants in its terminated plan from the Executive Life Insurance Company. Executive Life later failed, leaving Pacific Lumber workers facing reduced annuities.

In many cases, companies took reversions from an "overfunded" plan while allowing significant underfunding in another plan. Since 1989, PBGC has issued a list of the 50 companies with the largest pension underfunding. Twenty companies on the list for at least one year took large reversions from an overfunded plan during the 1980's. For example, United Air Lines took a $378 million reversion in 1985. United's pension plans are now underfunded by over $1 billion. Another example is the Goodyear Tire and Rubber Company which took a $400 million reversion in 1988 from its plan for salaried workers. Goodyear's pension plan for tire and rubber workers is now underfunded by $388 million. [Table 4]

TABLE 4: Companies Appearing on at Least One Top 50 List That Took a Reversion From One or More of Their Plans (Dollars in Millions)

Company Name	1994 - Vested Underfunding	Amount of Reversion(s)	Date of Reversion(s)
Anchor Glass Container Corp.	181.2	4.75	7/31/85
ASI Holding	86.0	119.9	6/30/88
Bethlehem Steel	1,942.9	1.40	12/31/82
Budd Co.	189.6	1.30	8/6/85
Cooper Industries	115.9	20.92	7/18/83, 6/30/88
Goodyear Tire & Rubber	388.4	400.00	6/30/88
Harnischfeger	27.5	38.01	8/1/84
Lone Star Technologies	55.1	54.27	11/30/85
LTV Corp.	2,189.9	2.090	5/1/85
Maxxam	3.4	50.00	3/31/86
New Valley (Western Union)	435.7	16.20	11/15/88
Occidental Petroleum	95.9	181.90	6/1/83, 3/15/88
Reynolds Metals	282.5	126.00	8/22/83
RJR Nabisco	23.2	2.00	6/30/88
Tenneco	N/A	1.00	8/15/87
Continental Airlines	151.9	2.14	1/31/82
UAL Corp.	1,034.3	378.15	7/5/85
Uniroyal*	531.6	4.00	9/10/87
United Brands	N/A	15.20	5/1/85
Varity Corp.	57.7	29.00	12/31/86

* Underfunding relates to Uniroyal Goodrich Tire - the reversion was taken by its' predecessor - Uniroyal Inc.

In some cases the same plans from which a reversion was taken are now significantly underfunded. The Enron Corporation, a Houston oil and gas company, removed $232 million from its pension plan in 1986. The plan was most recently reported to be underfunded by $83 million. ASI Holding Corporation, an air conditioning, plumbing and automotive products company employing 37,800 workers that is headquartered in New Jersey, took $120 million from a plan now underfunded by $86 million.

CONGRESSIONAL RESPONSE

Congress took action to stem the tide of pension reversions. Beginning in 1986, Congress imposed a series of excises taxes: a 10 percent excise tax on the amount of the reversion in the Tax Reform Act of 1986; a 15 percent excise tax in the Technical and Miscellaneous Revenue Act of 1988; and, in the Omnibus Reconciliation Act of 1990, a 20 percent tax when the employer established a successor pension plan with similar benefits, or a 50 percent tax if no successor plan was established.

The number and size of reversions fell substantially. As the excise tax went up, reversions went down. In 1992, only $28 million was taken from retirement plans -- as compared to the record $6.67 billion in 1985. (See Table 6 on page 9.)

RETIREE HEALTH TRANSFERS UNDER SECTION 420

OBRA 1990 also addressed the emerging problem of companies terminating retiree health benefits for their pension plan participants. Section 420 was added to the Internal Revenue Code to allow companies to transfer certain pension assets to a health benefit account within the pension trust to pay current retiree health benefits. These transfers were permitted without terminating the pension plan and without including the transferred funds in the income of the company or subjecting them to the OBRA 1990 excise taxes. The availability of transfers was circumscribed to protect plan participants and the pension system: transfers stayed with the pension plan; they were permitted only to pay the retiree health expenses of plan participants; they were limited to one year's retiree health payouts; and, only assets in excess of 125 percent of the plan's "current liability," as measured each year, could be transferred.

From 1991 to 1994 there were about 90 transfers, amounting to $2 billion. Section 420 was to expire in 1994, but was extended to 1999 as part of last year's GATT legislation. [Table 5]

TABLE 5: Withdrawals from Ongoing Pensions for Retiree Health, 1991-1994

TABLE 5: Withdrawals from Ongoing Pensions for Retiree Health, 1991-1994 (Dollars in Millions)

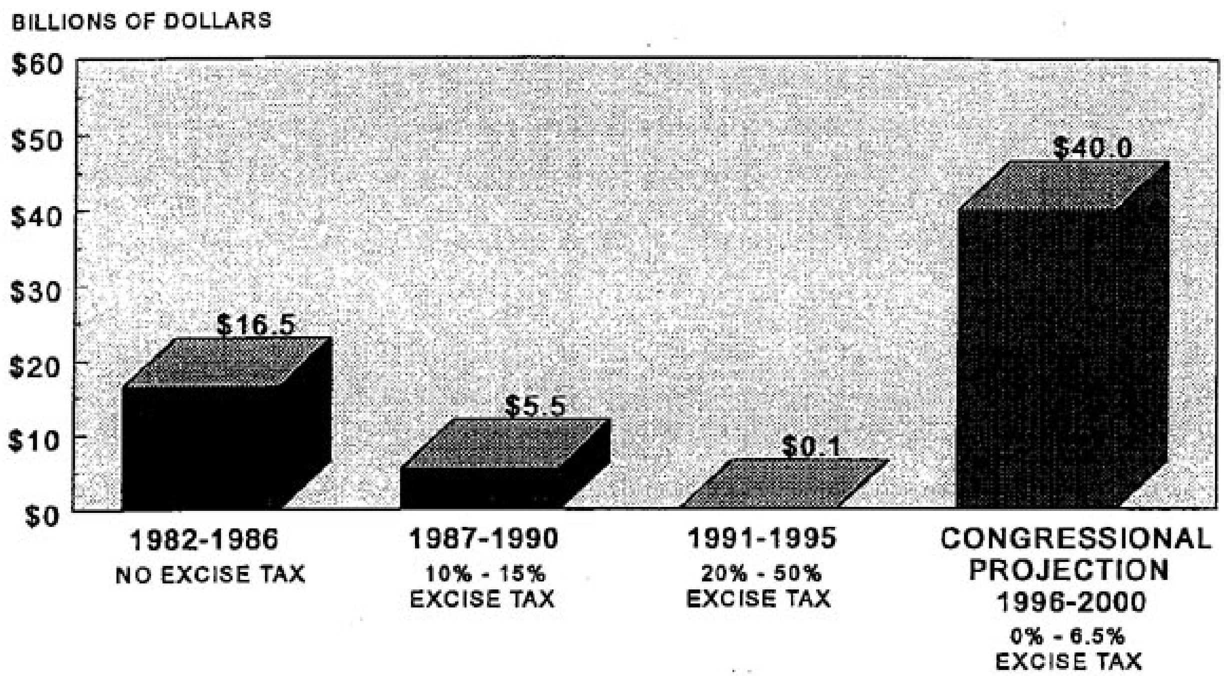
Year	Number of Companies	Amount
1991	30	$ 978
1992	16	$ 222
1993	15	$ 679
1994	31	$ 167
Total	92	$ 2,046

COMMITTEE ON WAYS AND MEANS PROPOSAL

On September 19, 1995, the House Committee on Ways and Means, during its consideration of the FY 1996 Budget Reconciliation Act, approved an amendment that would substantially broaden the availability of transfers under Section 420. Amounts reverted would leave the pension plan and could be used by the employer for any purpose. Amounts reverted would be includable in the gross income of the employer, but no excise tax would apply in the case of reversions occurring before July 1, 1996. After that, a 6.5 percent excise tax would apply. There would be no limit on the number of reversions. The only limit on the amount of the reversion would be a requirement that the transfer not be greater than the lesser of assets over 125 percent of the plan's current liabilities as determined on January 1, 1995, or on the most recent valuation preceding the reversion. The proposal would apply to reversions through the year 2000.

The Committee proposal could affect about 22,000 pension plans covering about 11 million workers and 2 million retirees. The Congressional Joint Committee on Taxation has estimated that companies would use this provision to take $30 to $40 billion of assets out of their pension plans. Nearly twice as much could be taken from pension plans in the next five years as was taken out since 1982. [See Table 6]

TABLE 6: REVERSION TRENDS AND CONGRESSIONAL PROJECTION



SOURCE: PBGC CASE ADMINISTRATION SYSTEM, REVERSIONS OF $1 MILLION OR MORE AND JOINT COMMITTEE ON TAXATION.

EFFECT ON PENSIONS AND THE PENSION INSURANCE SYSTEM

Allowing companies to remove assets from their pension plans could put participants and the pension insurance system at risk.

A pension plan funded at 125 percent of current liability can be underfunded on a termination basis. "Current liability" assumes that a plan will be ongoing and pay benefits over time. "Termination liability" measures exposure to the PBGC and participants; i.e., the risk should the pension plan fail. The interest rate, mortality rate and expected retirement age assumptions used

when calculating a plan's termination liability are different from those used for valuing the liabilities of an ongoing plan. An analysis of ten large pension plans insured by PBGC showed that, if funded at the 125 percent level specified by the Committee on Ways and Means, their funding would be only 87 percent on a termination basis. [See Table 7]

TABLE 7: An Analysis of the 125% Current Liability Cushion

The PBGC analyzed the current liability and termination liability of ten large pension plans to determine the value on a termination basis of the 125% current liability cushion.

The ten plans were chosen from among the plans that had been analyzed for the Retirement Protection Act minimum funding reforms. They included both salaried and hourly plans and both flat benefit and compensation-based benefit plans. The analysis of the plans was performed using the Winklevoss Projection System, the same actuarial forecasting and valuation model utilized for RPA.

The plans' census, actuarial assumptions, and benefit structures were loaded into the model. The model was first run to reproduce the current liability reported by the plans on their Form 5500, the annual report to the Internal Revenue Service and Department of Labor. The model was then run based upon the same census and benefit structure but with the PBGC's assumptions (i.e., interest, mortality, and expected retirement age) replacing the plans' actuarial assumptions.

The resulting termination liability was substantially larger than current liability for all ten plans. If the plans' assets were 125% of current liability, the individual termination liability funded ratios among the ten plans would range from a little over 80% to a little over 100%. In the aggregate, the plans' termination liability funded ratio would be less than 90%.

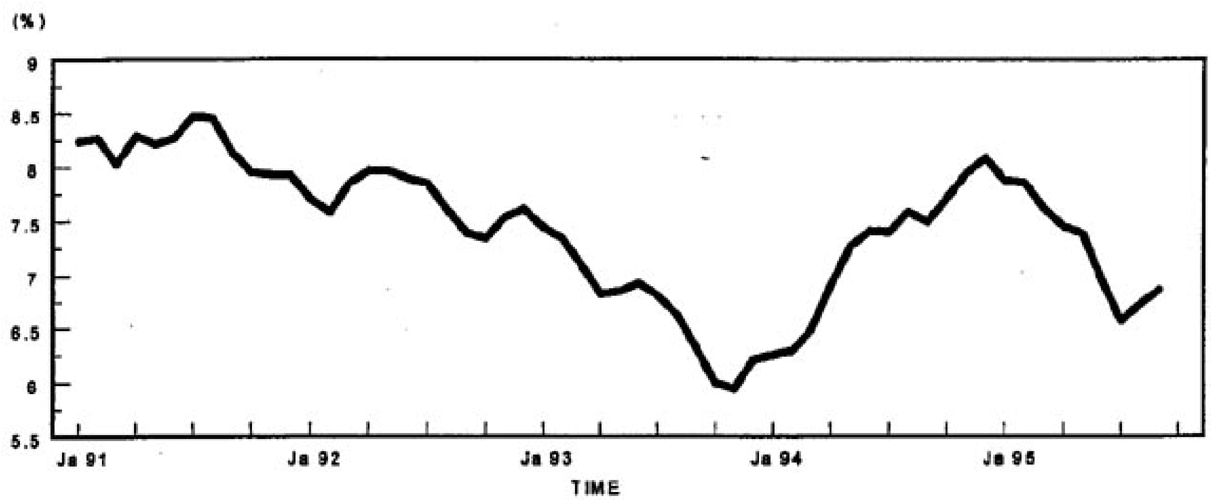
For the largest plan in this group, funding at 125 percent of current liability would leave it only 83 percent funded for termination liabilities. This 42 percent difference between the two funded levels is based upon differences in the assumptions used to calculate them–that is, the interest rate (22% of the difference), mortality (12%) and expected retirement assumptions (8%).

Beyond that, a plan that is overfunded today can quickly become underfunded. Changes in interest rates and asset values can cut funding levels. A one percent drop in interest rates could lower a plan's funding level by over 15 percent. A reduction in the interest rate of one percentage point together with an asset reduction of ten percent would cause a plan funded at 125 percent to become underfunded. [Table 8] The thirty-year Treasury rate varied between 6.0 percent and 8.5 percent between 1991 and 1995. [Table 9]

TABLE 8: Funding Ratio of Plan Starting at 125% Funded

	Change in Interest Rate			
	None	Down 1%	Down 2%	
No Change in Assets	125%	107%	92%	
Assets Down 10%	113%	96%	82%	
Assets Down 20%	100%	86%	73%	
Assets Down 30%	88%	75%	64%	
Adjustments for Liabilities:	Retiree liability 30% of total times 1.07 =			0.321
	Active liability 70% of total times 1.21 =			0.847
* Assumes assets are 100% in stocks.				1.168

TABLE 9: 30 Year Treasury Yields



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This is of particular concern in light of a 1992 study by the General Accounting Office, "Pension Plans: Hidden Liabilities Increase Claims Against Government Insurance Programs." The study demonstrates that the financial condition of plans tends to deteriorate significantly prior to their termination. Companies in financial difficulty may well have an incentive to avail themselves of a liberalized Section 420 to strip as many assets as possible out of their pension plans. A company could transfer assets under the Section 420 proposal, suffer continuing difficulties, and terminate its plan with a funding level that has fallen well below the immediate post-transfer level.

Finally, even healthy companies who have responsibly funded their plans might take pension assets to avoid becoming a takeover target or to satisfy stockholder demands.

CONCLUSION

Section 420 is now a limited provision. It has facilitated the transfer of relatively modest sums for the retirement security of pensioners. The Committee's proposal to expand Section 420 and lower the excise tax would encourage corporations to take tens of billions of dollars out of their pension plans potentially leaving them with assets insufficient to protect plan participants or the pension insurance system. Removal of substantial assets from the retirement system would impede the progress promised by the Retirement Protection Act toward improved pension funding and a stronger pension insurance system.

Endnotes

1. The PBGC also operates a multiemployer pension insurance program that insures the pensions of 9 million participants in 2,000 multiemployer plans.

2. The PBGC guarantees up to $30,886.32 per year for a 65 year-old pensioner in a single-employer defined benefit plan. This maximum is lower if payments begin before the pensioner reaches age 65 or spousal benefits are provided. Early retirement supplements or benefit increases made within five years of plan termination are not fully guaranteed.

3. The agency guidelines enabled employers to effectively continue a plan while taking out assets. They did require annuitization and notification of employees.

4. Study by the Investor Responsibility Research Center.

DRAFT

September 22, 1995 (REVISED)

ANALYSIS OF PROPOSED AMENDMENT TO IRC SECTION 420

Item 1 Withdrawing assets from currently well funded pension plans can lead to future underfunding.

A. Plans that have been subjected to reversions in the past have become underfunded over time.

B. Companies that have taken reversions in the past are now sponsors of significantly underfunded pension plans.

Item 2 An example of a major plan whose 125 percent "current liability" level translates to an 83 percent "termination liability" level because of differences in the assumptions used for interest, mortality, and expected retirement age.

Item 3 Funding levels are sensitive to interest rates and investment performance.

Item 4 Interest rates are already below the interest rate the bill sets for calculating the amount that can be withdrawn from the plan.

Item 5 In the past the pension system has lost a lot of money due to asset reversions.

Item 6 Under this proposal a lot of plans have assets that could be reverted, and these possibly revertible assets amount to a great deal of money.

Item 7 Overfunding has declined steadily.

Item 8 This proposal allows pension plans to be used as tax free corporate checking accounts.

Item 9 Analysis of Section 420 Retiree Health Transfers.

Item 10 Top underfunded plans with at least 150% funding ratios.

Item 11 Sensitivity of reversions to the excise tax.

- Withdrawal of excess assets can lead to future underfunding...

- After taking a reversion of excess plan assets, many firms continue providing the same benefits to plan participants under follow on plans. Over time it is possible for the follow on plans to become significantly underfunded. Some examples of firms whose follow on plans were underfunded at the vested level in 1994 (using a 5.65% interest rate and GAM-83 mortality assumption) are:

Dollars in Millions

Company Name	Plan Vested Underfunding	Amount of Reversion	Date of Reversion
ASI Holding Corp.	86.0	119.9	6/30/88
Enron	82.5	232.2	6/30/86
Exxon Corp.	528.9	17.0	3/31/86

- Additionally, many companies that took reversions from one plan now have significant amounts of underfunding in other plans that they sponsor. Underfunding for vested benefits are calculated in 1994 using a 5.65% interest rate and the GAM-83 mortality assumption.

- The facts about reversions and underfunded pension plans..

What we did:

- Looked at companies that had ever appeared on a Top 50 list and that had ever taken a reversion (pre- or post-SEPPA) from any of their pension plans.

- Looked at companies that were reviewed during 1994 (candidates for the December 13, 1994 Top 50 list) that had ever taken a reversion (pre- or post-SEPPA) from any of their pension plans.

What we found:

- Twenty (20) companies that have appeared on at least one of the Top 50 lists we have issued took a reversion in the 1980's from one (or more) of the plans that they sponsored. Generally, these are <u>*not*</u> the same plans as the ones that are now underfunded.

- Thirty-six (36) other companies with large underfunding in 1994, had taken a reversion in the 1980's from one (or more) of the plans that they sponsored. Generally, these are <u>*not*</u> the same plans as the ones that are now underfunded.

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Companies Appearing on at Least One Top 50 List That Took a Reversion From One or More of Their Plans (Dollars in Millions)

Company Name	1994 - Vested Underfunding	Amount of Reversion(s)	Date of Reversion(s)
Anchor Glass Container Corp.	181.2	4.75	7/31/85
ASI Holding	86.0	119.9	6/30/88
Bethlehem Steel	1,942.9	1.40	12/31/82
Budd Co.	189.6	1.30	8/6/85
Cooper Industries	115.9	20.92	7/18/83, 6/30/88
Goodyear Tire & Rubber	388.4	400.00	6/30/88
Harnischfeger	27.5	38.01	8/1/84
Lone Star Technologies	55.1	54.27	11/30/85
LTV Corp.	2,189.9	2.090	5/1/85
Maxxam	3.4	50.00	3/31/86
New Valley Corp. (Western Union)	435.7	16.20	11/15/88
Occidental Petroleum	95.9	181.90	6/1/83, 3/15/88
Reynolds Metals	282.5	126.00	8/22/83
RJR Nabisco	23.2	2.00	6/30/88
Tenneco	N/A	1.00	8/15/87
Continental Airlines	151.9	2.14	1/31/82
UAL Corp.	1,034.3	962.00	7/5/85
Uniroyal*	531.6	4.00	9/10/87
United Brands	N/A	15.20	5/1/85
Varity Corp.	57.7	29.00	12/31/86

*Underfunding relates to Uniroyal Goodrich Tire - the reversion was taken by its' predecessor - Uniroyal Inc.

Companies Reviewed for the 12/13/94 Top 50 List That Took a Reversion From One or More of Their Plans

Dollars in Millions

Company Name	Vested Underfunding	Amount of Reversion(s)	Date of Reversion(s)
Acme Cleveland	25.8	12.00	10/1/86
American Express Co.	5.5	90.00	4/30/85
Ashland Oil	3.1	195.00	1/2/87
Del Monte Foods	92.3	1.00	6/30/88
Dresser Industries	77.7	194.21	6/10/85, 12/11/90
Enron	82.5	232.00	6/30/86
Ensearch	94.9	35.39	13/31/85
Equitables Cos. Inc.	260.0	1.12	2/10/84
Exxon Corp.	528.9	1,641.00	3/31/86, 8/12/86
Federal Paperboard	47.6	18.33	2/3/84
FMC Corp.	2.2	726.00	11/30/85
General Refractories	4.0	6.19	10/31/83
Georgia-Pacific Corp.	54.5	1.31	12/30/83
Great Atlantic & Pacific Tea Co.	9.1	272.55	5/31/84
Interlake Corp.	4.0	90.80	12/31/86
ITT Corp.	200.4	4.55	12/31/84
Johnson Controls	25.7	41.00	12/1/90
Lamson & Sessions	26.8	5.56	9/30/84
Levi Strauss Assoc.	42.7	53.20	12/31/85
Libbey Owens Ford	96.8	52.02	10/7/85
Lone Star Industries	55.2	42.00	5/31/84
McDermott International	26.1	40.70	12/31/89
National Gypsum	27.5	20.40	2/4/88

New York Times	47.2	1.56	12/31/85
NL Industries	33.3	150.00	5/1/86
Pennzoil Co.	17.4	71.00	8/30/86
Phillips Petroleum Co.	51.2	400.00	9/1/86
Reliance Electric Co.	41.6	120.00	7/1/87
Revere Copper Products	29.3	2.95	12/13/85
Revlon Consumer Products	43.5	38.86	12/28/85
Rexnord	25.4	3.42	10/31/84
Sherwin Williams	7.9	107.20	8/1/86
Smith (A.O.)	62.5	5.00	12/31/86
Timken	84.4	119.30	11/1/84
TRW Inc.	11.5	1.75	4/30/83
Union Camp Corp.	110.3	3.49	7/13/85, 8/4/85

An Analysis of the 125% Current Liability Cushion

The PBGC analyzed the current liability and termination liability of ten large pension plans to determine the value on a termination basis of the 125% current liability cushion.

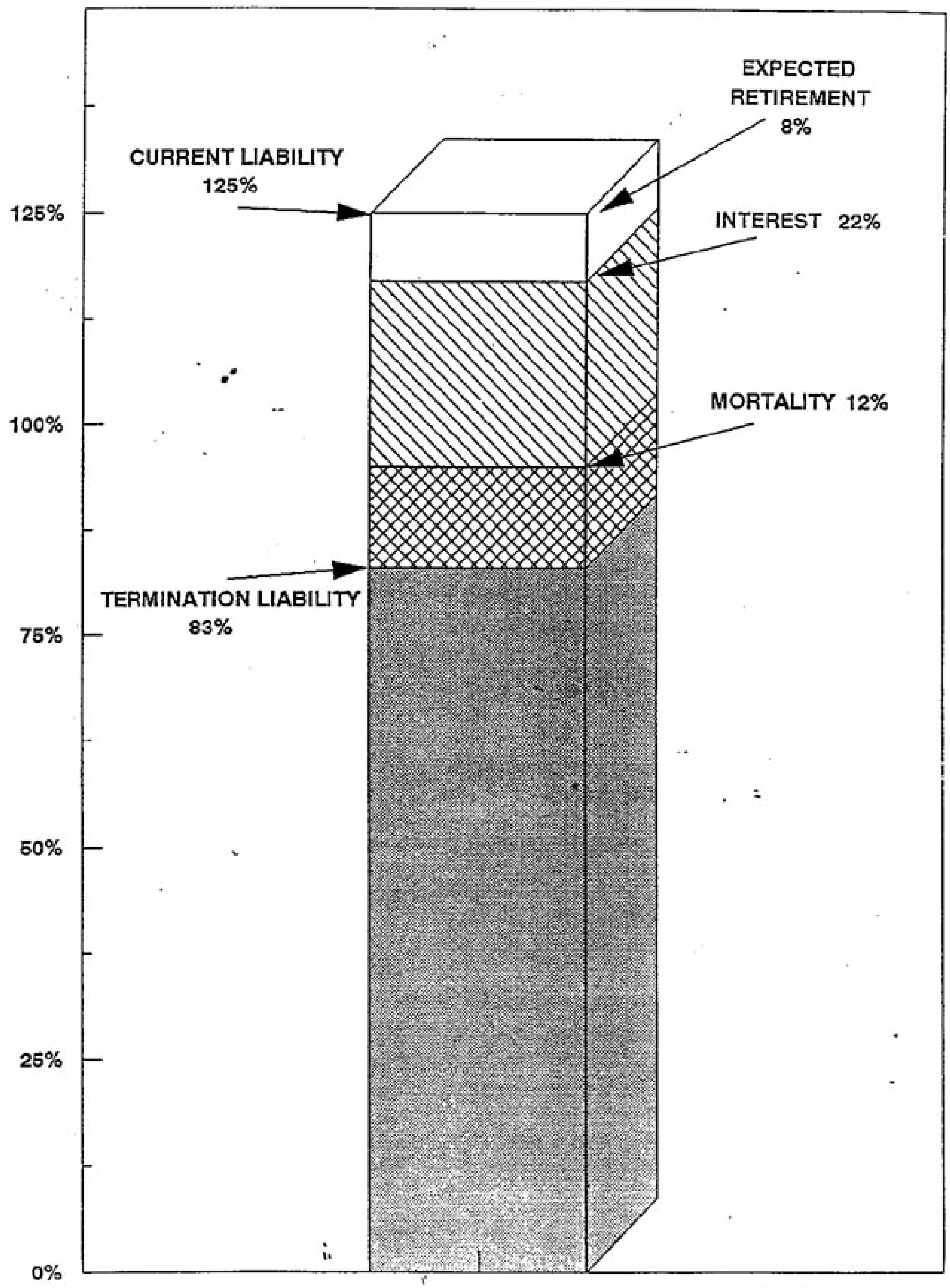
The ten plans were chosen from among the plans that had been analyzed for the Retirement Protection Act ("RPA") minimum funding reforms. They included both salaried and hourly plans and both flat benefit and compensation-based benefit plans. The analysis of the plans was performed using the Winklevoss Projection System, the same actuarial forecasting and valuation model utilized for RPA.

The plans' census, actuarial assumptions, and benefit structures were loaded into the model. The model was first run to reproduce the current liability reported by the plans on their Form 5500, the annual report to the IRS and DOL. The model was then run based upon the same census and benefit structure but with the PBGC's assumptions (i.e., interest, mortality, and expected retirement age) replacing the plans' actuarial assumptions.

The resulting termination liability was substantially larger than current liability for all ten plans. If the plans' assets were 125% of current liability, the individual termination liability funded ratios among the ten plans would range from a little over 80% to a little over 100%. In the aggregate, the plans' termination liability funded ratio would be less than 90%.

The accompanying graph shows the result for one large salary plan. A transfer of assets from this plan funded at 125 percent of current liability leaves the plan only 83 percent funded for termination liabilities. This difference between the two funded levels is based upon differences in assumptions used to calculate them--that is, the interest rate (22% of the difference), mortality (12%) and expected retirement assumptions (8%). These assumptions about the future are quite different between funding an on-going plan (i.e., the current liability assumptions) and valuing a terminated plan.

INCREMENTAL COMPONENTS OF PBGC TERMINATION LIABILITY
FUNDED RATIOS FOR A MAJOR PLAN



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The following chart illustrates the sensitivity of funding ratios to interest rates and asset values.

For example, a reduction in interest rate of 1 percentage point together with an asset reduction of 10% reduces the funding ratio from 125% to 96% in a typical plan.

Funded Ratio of Plan
Starting at 125% Funded

	Change in Interest Rate		
	None	Down 1%	Down 2%
No Change in Assets	125%	107%	92%
Assets Down 10%	113%	96%	82%
Assets Down 20%	100%	86%	73%
Assets Down 30%	88%	75%	64%

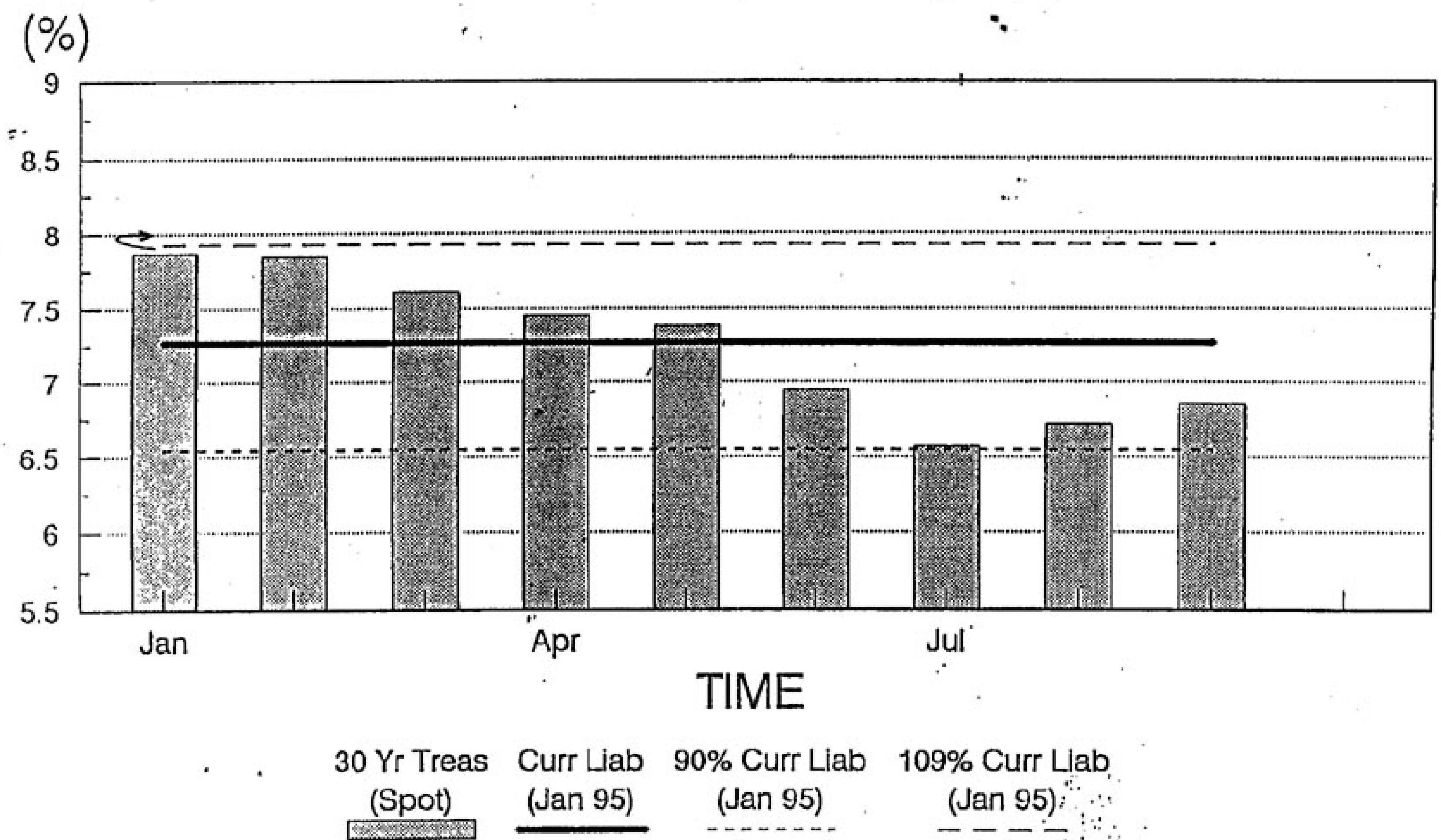
Adjustment for liabilities:	Retiree liability 30% of total times 1.07 =	0.321
	Active liability 70% of total times 1.21 =	0.847
		1.168

09/15/95

And interest rates recently have shown significant volatility...

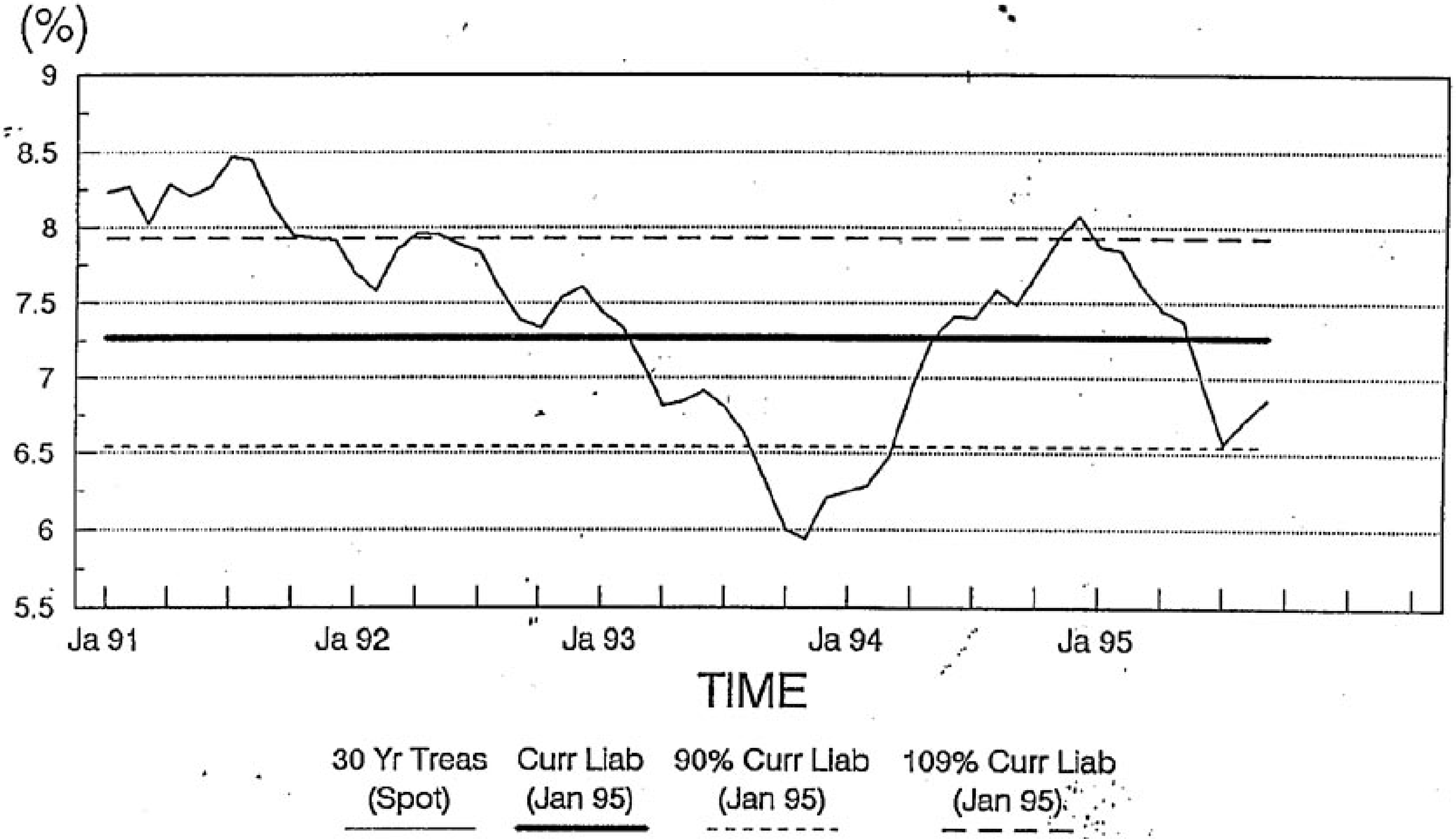
...for example, 100% of the current liability interest rate was 7.25 percent in January 1995; 110% of this rate which can be used for purposes of calculating excess assets, was 8.0 percent; but the spot 30-year Treasury rate (a proxy for the PBGC termination rate) was about 6.5 percent by July 1995; and Treasury 30-year interest rates have fluctuated between 8.5 and 6.0 percent since 1991.

Jan 1995 Current Liability Interest Rate
Compared to
30 Year Treasury Yields (1995)



Jan 1995 Current Liability Interest Rate

Compared to
30 Year Treasury Yields



TOP 100 POST-SEPPA REVERSIONS

RANK	CASE	SPONSOR	DOPT	REVERSION	ASSETS	BENEFITS
1	82642	EXXON CORP.	12-Aug-86	$1,600.00	$5,200.00	$3,600.00
2	108754	GOODYEAR TIRE	30-Jun-88	$400.00	$929.60	$529.60
3	83596	PHILLIPS PETROLEUM	01-Sep-86	$400.00	$1,090.00	$690.00
4	112693	MERRILL LYNCH	13-Dec-88	$242.50	$1,012.40	$769.90
5	86549	ENRON	30-Jun-86	$232.20	$254.10	$21.90
6	86007	ASHLAND OIL INC	02-Jan-87	$165.00	$386.00	$221.00
7	81065	N L INDUSTIRES	01-May-86	$150.00	$300.00	$150.00
8	122950	AMER. NAT. RED CROSS	31-May-89	$128.00	$386.00	$258.00
9	81256	DRESSER INDUSTRIES	30-Apr-86	$124.00	$580.00	$456.00
10	94178	RELIANCE ELECTRIC	01-Jul-87	$120.00	$280.00	$160.00
11	113644	AMERICAN STANDARD	30-Jun-88	$119.90	$625.00	$505.10
12	79767	TRANSCO	01-Mar-86	$115.20	$187.00	$71.80
13	84331	SHERWIN - WILLIAMS S	01-Aug-86	$107.20	$309.30	$202.10
14	108389	PS GROUP	30-Jun-88	$105.60	$110.00	$4.40
15	106031	OCCIDENTAL PETROLEUM	15-Mar-88	$95.50	$382.00	$286.50
16	101773	MORRISON KNUDSEN	12-Dec-87	$81.80	$127.30	$45.50
17	85812	PENNZOIL	30-Aug-86	$70.80	$288.60	$217.80
18	115604	PERALTA HOSPITAL	31-Dec-88	$66.60	$69.00	$2.40
19	107005	CABOT CORP	15-May-88	$60.00	$61.20	$1.20
20	82626	BAKER INTERNATIONAL	09-Jun-86	$56.30	$173.30	$117.00
21	99363	C B I INDUSTRIES	31-Dec-87	$55.00	$91.00	$36.00
22	90854	AMAX-SALARIED	30-Apr-87	$54.00	$135.00	$81.00
23	122123	TRIANGLE PUBLICATION	15-Feb-89	$50.20	$115.20	$65.00
24	80879	PACIFIC LUMBER	31-Mar-86	$50.00	$80.00	$30.00
25	118485	ST. VINCENT MEDICAL	31-Mar-89	$49.20	$85.70	$36.50
26	94820	ASAR CO.	30-Jun-87	$49.00	$189.00	$140.00
27	98997	EMERY AIR FREIGHT	31-Oct-87	$48.90	$58.80	$9.90
28	101456	JOY TECHNOLOGIES	25-Sep-87	$47.00	$107.00	$60.00
29	97756	1ST NAT.BANCORP OF T	31-May-87	$43.80	$65.40	$21.60
30	138691	DESOTO SALARIED	31-Dec-90	$43.00	$79.80	$36.80
31	108749	STANADYNE-SALARIED	02-Jul-88	$40.90	$101.90	$61.00
32	141897	JOHNSON CONTROLS	01-Dec-90	$40.80	$107.00	$66.20
33	131387	BABCOCK & WILCOX	31-Dec-89	$40.70	$153.70	$113.00
34	107787	AMINOIL	30-Jun-88	$40.50	$77.10	$36.60
35	99297	GUY F. ATKINSON CO.	01-Dec-87	$40.20	$68.80	$28.60
36	84641	BECOR WESTERN	01-Sep-86	$40.10	$114.50	$74.40
37	93665	AMCA INT'L	30-Jun-87	$39.40	$115.70	$76.30
38	94871	AMSTAR	30-Jun-87	$39.00	$84.00	$45.00
39	115337	FIGGIE	21-Nov-88	$37.30	$121.30	$84.00
40	113470	FISCHBACH	30-Nov-88	$35.00	$90.00	$55.00.
41	94589	INTERLAKE CO's	31-Dec-86	$32.20	$48.70	$16.50
42	86588	BLUE CROSS - CA.	10-Dec-86	$31.50	$95.20	$63.70
43	78803	GATES LEARJET	31-Jan-86	$30.00	$55.00	$25.00
44	86008	ASHLAND OIL INC. SAL	02-Jan-87	$30.00	$74.00	$44.00
45	113321	NEW ORLEANS PUB.SERV	01-Oct-88	$29.60	$122.70	$93.10
46	94867	KELSEY-HAYES	31-Dec-86	$29.00	$108.80	$79.80
47	105340	PRESBYTERIAN HOSPITA	31-Dec-87	$29.00	$31.20	$2.20
48	89824	PIONEER	10-Dec-86	$28.60	$69.30	$40.70
49	93217	DOUBLE DAY & CO	31-Dec-86	$28.00	$92.00	$64.00
50	112429	PRIMARK	01-Sep-88	$27.00	$29.00	$2.00

ITEM 5

TOP 100 POST-SÈPPA REVERSIONS

RANK	CASE	SPONSOR	DOPT	REVERSION	ASSETS	BENEFITS
51	104674	SCWC CORP.	08-Feb-87	$26.50	$95.00	$68.50
52	113378	AMF	31-Aug-88	$26.10	$55.00	$28.90
53	86525	HUGHES TOOL - HOURLY	31-Aug-86	$26.00	$42.60	$16.60
54	139492	WICKS	31-Oct-90	$26.00	$75.00	$49.00
55	87410	SOUTHERN UNION	01-Oct-86	$26.00	$54.00	$28.00
56	93916	ALUMAX, INC.	30-Apr-87	$25.80	$93.00	$67.20
57	86977	FOSTER WHEELER	31-Jan-87	$25.20	$70.10	$44.90
58	86042	COMMERCIAL CREDIT	15-Dec-86	$25.00	$81.00	$56.00
59	126480	NORTH AMERICA COAL	31-Dec-89	$24.00	$44.20	$20.20
60	82637	EXXON COAL	12-Aug-86	$24.00	$47.00	$23.00
61	97614	UNITED BANKS OF CO.	01-Sep-87	$23.50	$27.50	$4.00
62	98298	FOOTE MINERAL	31-Aug-87	$23.10	$38.60	$15.50
63	118338	JEWISH FEDERATION OF	31-Dec-88	$22.90	$50.40	$27.50
64	109368	BARRY WRIGHT CORP.	31-Jul-88	$22.50	$47.40	$24.90
65	123140	MOHASCO - SALARIED	11-Jul-89	$22.10	$86.10	$64.00
66	86540	HUGHES TOOL - UNIFIE	31-Aug-86	$22.10	$29.90	$7.80
67	98486	CECO CORP	13-Nov-87	$22.00	$74.00	$52.00
68	107789	KENTUCKY FRIED CHICK	30-Jun-88	$21.20	$25.30	$4.10
69	85754	ALLIED MAINTENANCE	29-Aug-86	$21.20	$41.00	$19.80
70	93333	FEDERAL PACIFIC ELEC	01-Jul-87	$20.90	$38.00	$17.10
71	86133	BLUE CROSS - MINN.	23-Dec-86	$20.70	$35.70	$15.00
72	86973	REED TOOL CO	30-Nov-86	$20.60	$39.60	$19.00
73	143631	CLUETT PEABODY	31-Dec-90	$20.40	$61.10	$40.70
74	86431	OZARK AIR - PILOTS	17-Nov-86	$20.00	$126.00	$106.00
75	95392	GROUP HEALTH	01-Jul-87	$20.00	$34.60	$14.60
76	94594	INTERLAKE CORP.	31-Dec-86	$19.80	$31.60	$11.80
77	119409	JIM WALTER	31-Dec-88	$19.70	$91.50	$71.80
78	101373	ARO CORP.	31-Oct-87	$19.60	$34.30	$14.70
79	89307	REEVES BROTHERS	30-Nov-86	$19.40	$36.10	$16.70
80	91619	U.S. SUGAR	31-Jan-87	$19.30	$51.20	$31.90
81	97364	LUTHERON GEN. HEALTH	01-Sep-87	$18.80	$26.20	$7.40
82	87350	STACKPOLE CORP	31-Dec-86	$18.70	$60.60	$41.90
83	118207	LUCKY STORES	31-Dec-88	$18.00	$126.00	$108.00
84	128607	COLEMAN CO. HOURLY	30-Jun-89	$18.00	$42.00	$24.00
85	84661	BELOIT	30-Jun-86	$18.00	$53.00	$35.00
86	102757	MET. MUSEUM OF ART	30-Jun-87	$17.80	$44.80	$27.00
87	143666	MOORE COMPANY	31-Dec-90	$17.70	$45.60	$27.90
88	91673	MAGMA COPPER	31-Dec-86	$17.60	$39.50	$21.90
89	125192	METHODIST HOS. OF IN	01-Sep-89	$17.40	$126.10	$108.70
90	94592	INTERLAKE CO's.	31-Dec-86	$17.20	$21.10	$3.90
91	80519	EXXON	31-Mar-86	$17.00	$21.00	$4.00
92	86046	CROSSLAND SAVINGS	14-Nov-86	$16.40	$40.60	$24.20
93	125837	WICKES	31-Jul-89	$16.40	$45.90	$29.50
94	85916	NACCO INDUSTRIES	30-Nov-86	$16.20	$19.20	$3.00
95	113389	MONARCH CAPITAL	30-Dec-88	$16.20	$87.30	$71.10
96	131446	KENDALL CO.	09-May-90	$16.10	$95.20	$79.10
97	105567	T ROWE PRICE	31-Jul-87	$15.70	$37.70	$22.00
98	84657	C. BREWER & CO.	31-Aug-86	$15.40	$21.00	$5.60
99	97488	ONEIDA, LTD.	14-Sep-87	$15.40	$80.50	$65.10
100	143480	PEOPLES DRUG STORES	31-Dec-90	$15.20	$70.10	$54.90

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Approximately 40% of pension plans (with about 43% of total liabilities) have assets in excess of 125 percent of current liabilities.

The amount of excess assets that could be withdrawn depends on the current liability interest rate used by the plan. 100% of the current liability rate on January 1995 is 7.25%. But for purposes of withdrawals, plans can use rates within 90 to 110 percent of this rate. Use of the highest permissible rate yields the highest amount of excess assets obtainable.

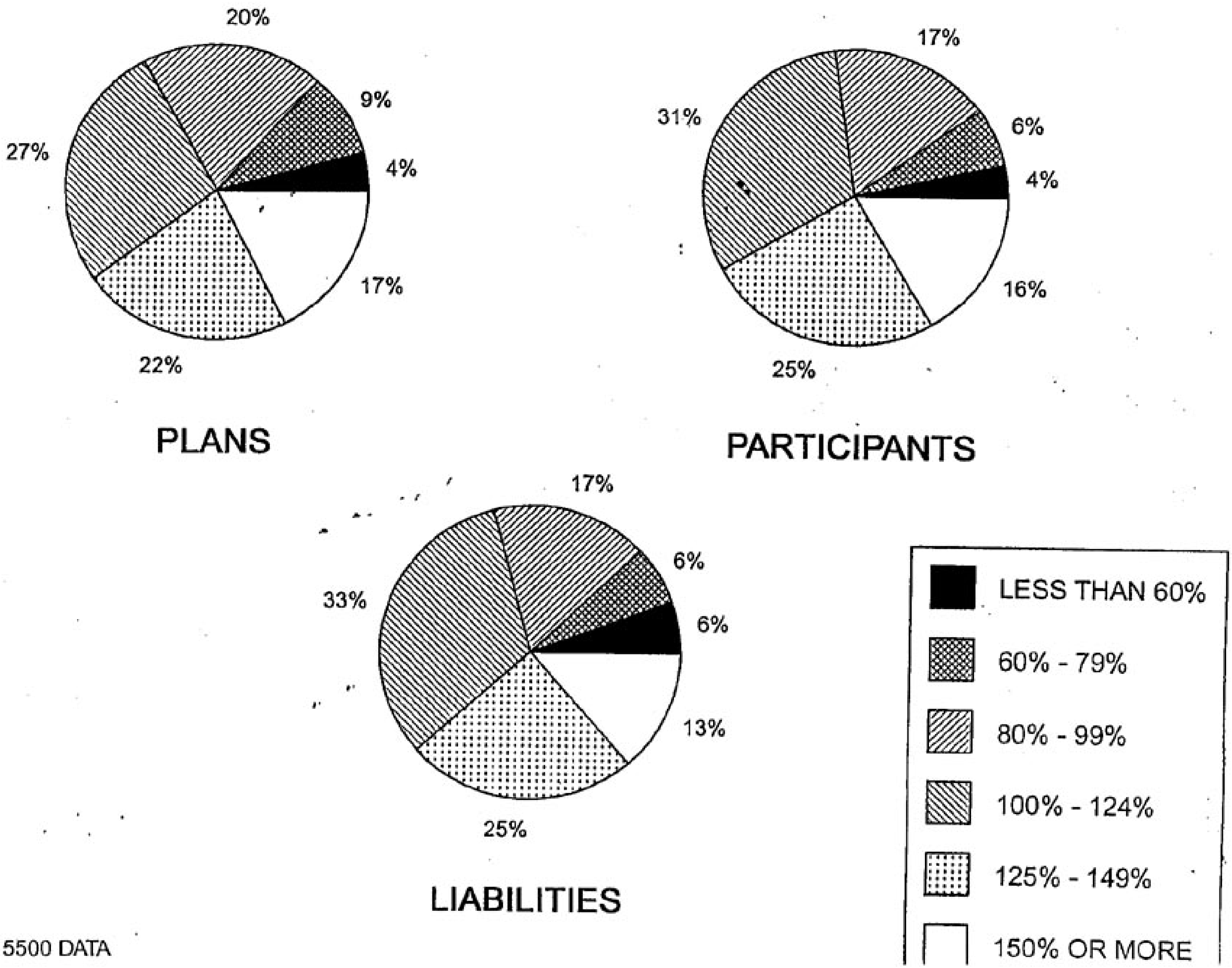
Estimates of Excess Assets above 125% Funding

Data source:		1993 5500 tapes
Mortality:		Plan assumption
Maximum obtainable excess:		
	Interest rate:	8.00% (110% of the current liability rate for January 1995)
	Estimate	$104.8 billion
Alternative estimate:		
	Interest rate:	7.25% (100% of the current liability rate for January 1995)
	Estimate	$75.6 billion

NOTE: These are estimates of excess assets as of January 1995. Actual excess assets available may be different because of changes in asset values, pension accruals, benefit changes, and other changes that may have occurred between January 1993 and January 1995. A review of stock and bond returns in Ibbotson Associates 1995 Yearbook shows that asset returns during 1993 and 1994 were no more than 5% per annum on average; thus, no adjustment for extraordinary asset gains is warranted.

DISTRIBUTION OF 1993 PLANS, PARTICIPANTS AND LIABILITIES

BY FUNDING RATIO



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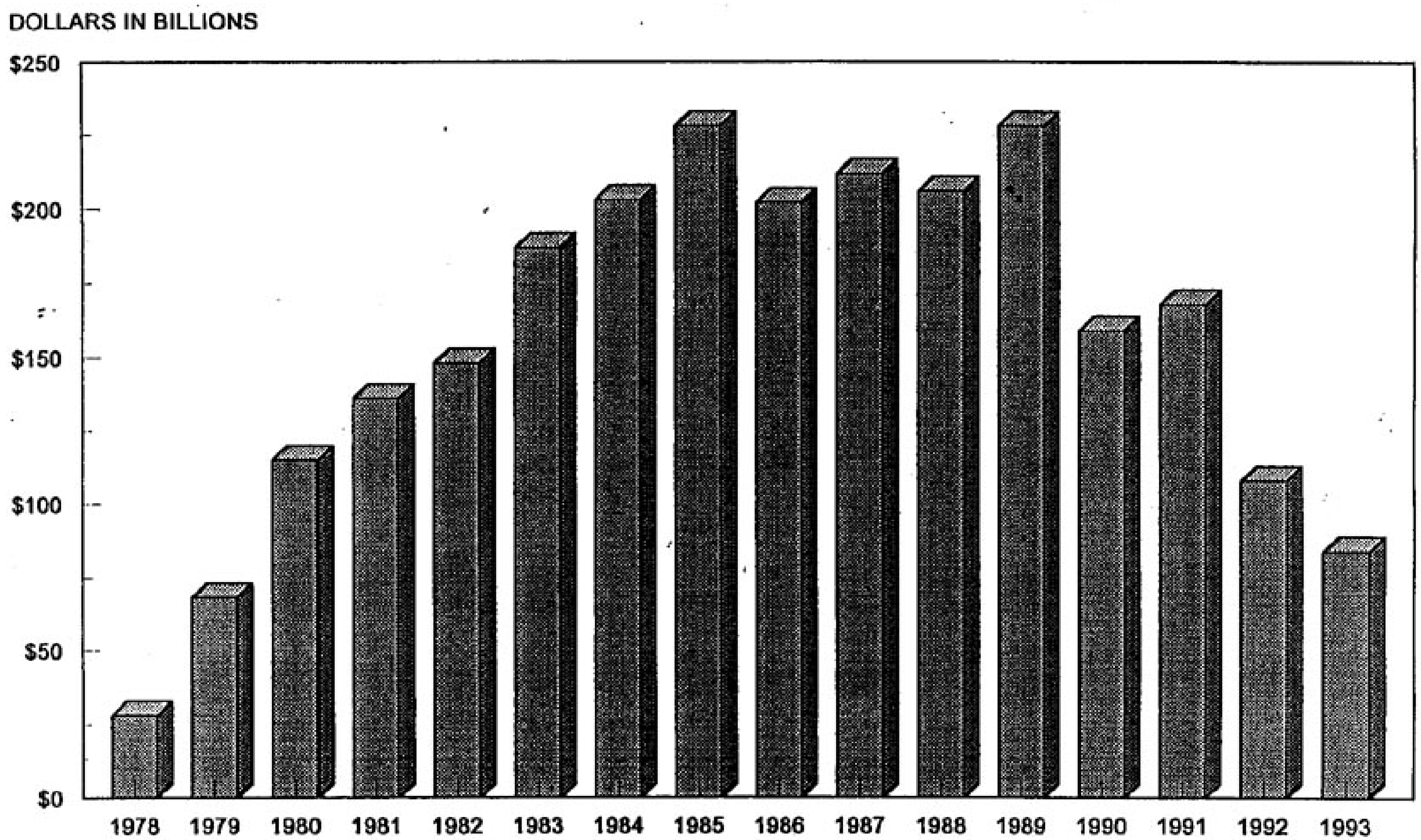
·OURCE: FORM 5500 DATA

Overfunding in the private pension system has been declining steadily since the mid 1980s. Data are year end, GAM-83 mortality and the interest rate is the PBGC immediate rate for the appropriate year.

NOTE: these excess assets are not calculated on the same basis as defined in the proposal, but are meant to show the drift in excess assets only.

AGGREGATE OVERFUNDING 1978-1993



SOURCE: 1978-1987 FORM 5500 FILINGS FOR SINGLE-EMPLOYER PLANS WITH 100 OR MORE PARTICIPANTS
1988-1993 COMPUSTAT PC-PLUS CORPORATE DATABASE
ALL DATA AS OF END OF YEAR
LIABILITIES USED TO CALCULATE OVERFUNDING ADJUSTED TO PBGC IMMEDIATE RATE

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Plan sponsors could use their pension funds as essentially tax free savings accounts.

Employers could:

- contribute and deduct the maximum allowed
- accumulate earnings tax free
- pay no income tax (and only a 6.5% excise tax) if withdrawn in tax loss year.

Analysis of Sec. 420 Retiree Health Transfers

Under the provisions Section 420 of the Internal Revenue Code, an employer can transfer assets from a defined benefit pension plan to a retiree health benefits account which is part of such plan. There are several limitations placed on such transfers to protect the participants and the pension system.

- Transfers are for a limited purpose - to pay retiree health expenses for participants in the pension plan.
- The assets are transferred to the retiree health benefits account, but stay in the pension plan until actually paid out to provide health benefits for plan participants.
- Transfers are limited to one year's retiree health payouts (i.e. an amount not to exceed what is reasonably estimated to be paid out for retiree health benefits during the taxable year of the transfer).
- Only assets in excess of 125 percent of the plan's "current liability" as measured on an annual basis can be transferred.

These limitations prevent a sudden, massive removal of assets from pension plans. They ensure that these pension assets continue to be used for their intended purpose, the retirement security of plan participants. Under Section 420 there have been relatively few transfers as reported below:

Year	# of Companies	Amount Transferred (in millions)
1991	30	$ 978
1992	16	$ 222
1993	15	$ 679
1994	31	$ 167

TOP 100 PLANS BY EXCESS ASSETS

OVER 150% FUNDED

RANK	SPONSOR	EINPIN	RATIO	ASSETS	LIABILITIES	EXCESS	EXCESS OVER 125%
1	AMERITECH CORP	363251481002	170%	$6,162	$3,616	$2,546	$1,642
2	BELLSOUTH CORP	581533433005	164%	$6,322	$3,865	$2,457	$1,491
3	PRUDENTIAL INS CO	221211670003	183%	$5,259	$2,869	$2,390	$1,673
4	AMERITECH CORPORATION	363251481001	159%	$5,719	$3,594	$2,125	$1,226
5	PACIFIC TELESIS GRP	942919931002	169%	$4,690	$2,782	$1,908	$1,212
6	BELLSOUTH CORP	581533433006	150%	$5,519	$3,673	$1,847	$928
7	STATE FARM MUTUAL AUTO INS	370533100001	194%	$3,589	$1,850	$1,739	$1,277
8	NORTHROP CORP	951055798010	184%	$3,542	$1,929	$1,614	$1,132
9	GTE SERVICE CORP	131675522002	194%	$3,141	$1,617	$1,523	$1,119
10	MCDONNELL DOUGLAS	430400674001	154%	$3,920	$2,549	$1,371	$734
11	GTE PRODUCTS CONNECTICUT	132884758001	243%	$2,140	$882	$1,257	$1,037
12	KRAFT GENERAL FOODS	363083135150	174%	$2,855	$1,641	$1,214	$804
13	GTE CALIFORNIA	950510200001	245%	$1,484	$605	$879	$728
14	FLORIDA POWER & LIGHT	590247775001	214%	$1,549	$725	$825	$644
15	GOODYEAR TIRE & RUBBER	340253240002	307%	$1,116	$364	$752	$661
16	NATL RURAL ELECTRIC COOP	530116145333	163%	$1,893	$1,161	$733	$443
17	CITIBANK N A	135266470001	157%	$2,025	$1,294	$731	$408
18	GEORGIA POWER	580257110001	216%	$1,341	$621	$720	$565
19	DIGITAL EQUIPMENT	42226590001	203%	$1,402	$690	$712	$540
20	SPRINT CORPORATION	480457967001	163%	$1,559	$954	$605	$367
21	INTERNATIONAL PAPER	130872805105	197%	$1,219	$617	$602	$447
22	SANDIA CORP	850097942006	171%	$1,329	$778	$551	$356
23	CHEMICAL BANK	134994650001	171%	$1,232	$721	$512	$332
24	ALABAMA POWER	630004250001	200%	$1,014	$506	$508	$381
25	MARATHON OIL CO	251410539001	218%	$882	$405	$477	$376
26	NCR CORPORATION	310387920001	151%	$1,396	$923	$472	$242
27	GTE SERVICE CORP	131675522001	200%	$920	$459	$461	$346
28	PENNSYLVANIA POWER & LIGHT	230959590001	198%	$915	$461	$454	$339
29	CONSOLIDATED RAIL CORP	231989084001	186%	$969	$521	$448	$318
30	TEXTRON INC	50315468076	151%	$1,312	$869	$442	$225
31	ARMSTRONG WORLD INDS	230366390001	180%	$985	$546	$439	$302
32	SAFEWAY INC	943019135001	199%	$849	$428	$422	$315
33	ABBOTT LABORATORIES	360698440001	156%	$1,116	$715	$401	$223
34	NORTHERN STATES POWER	410448030001	153%	$1,157	$757	$400	$210
35	FIRST NATL BANK OF CHICAGO	360899825002	192%	$831	$432	$399	$291
36	PFIZER INC	135315170001	153%	$1,084	$707	$377	$200
37	CHEMICAL BANK	134994650005	248%	$630	$254	$376	$312
38	ANHEUSER-BUSCH	431162835003	188%	$778	$413	$365	$262
39	MELLON BANK N A	250659306001	201%	$723	$360	$363	$273
40	CHEMICAL BANK	134994650006	225%	$630	$281	$350	$279
41	TIMES MIRROR CO	951298980001	179%	$789	$440	$349	$239
42	TELEDYNE	952282626100	201%	$692	$345	$347	$261
43	KAISER PERMANENTE MEDCARE	946365467001	167%	$856	$511	$345	$217
44	UNION OIL CO OF CALIFORNIA	951315450001	170%	$832	$489	$343	$221
45	R R DONNELLEY & SONS	361004130001	162%	$890	$551	$339	$202
46	SOUTHERN NEW ENGLAND TELE	60542646005	164%	$854	$521	$333	$203
47	GTE PRODUCTS CONNECTICUT	132884758036	213%	$626	$294	$332	$259
48	NYS ELECTRIC & GAS	150398550001	186%	$716	$384	$332	$236
49	GTE FLORIDA	590397520001	232%	$572	$246	$326	$264
50	BELL COMMUNICATION RSCH	222478398002	160%	$869	$544	$325	$189
51	BROWN & WILLIAMSON TOBACCO	610144470001	225%	$576	$255	$320	$257
52	CLEVELAND ELEC ILLUMINATING	340150020001	213%	$589	$276	$313	$244
53	WESTVACO CORP	131466285002	229%	$554	$242	$312	$251
54	GTE GOVERNMENT SYSTEMS	161190245002	211%	$591	$280	$311	$241
55	GTE SOUTHWEST	750573444001	221%	$562	$254	$308	$245
56	MAYO FOUNDATION	416011702001	155%	$857	$552	$305	$167
57	RALSTON PURINA	430470580011	164%	$759	$462	$297	$182
58	PANHANDLE EASTERN	742150460001	174%	$699	$402	$297	$196
59	NIAGARA MOHAWK POWER	150265555001	158%	$797	$504	$293	$167

TOP 100 PLANS BY EXCESS ASSETS
OVER 150% FUNDED

RANK	SPONSOR	EINPIN	RATIO	ASSETS	LIABILITIES	EXCESS	EXCESS OVER 125%
60	COASTAL CORPORATION	741734212002	168%	$708	$422	$286	$181
61	ROHM AND HAAS CO	231028370002	178%	$641	$360	$281	$191
62	BANK OF NEW YORK	132614959002	174%	$643	$369	$275	$182
63	UPJOHN COMPANY	381123360001	163%	$700	$430	$270	$163
64	WHIRLPOOL CORP	381490038002	190%	$566	$298	$268	$194
65	BANKERS TRUST NEW YORK	136180473001	202%	$522	$259	$263	$198
66	AMERICAN GENERAL CORP	740483432003	219%	$480	$219	$261	$206
67	KRAFT GENERAL FOODS INC	130762680003	172%	$619	$359	$260	$170
68	HEARST CORPORATION	130433120048	211%	$478	$226	$252	$196
69	TEXTRON INC	50315468006	234%	$436	$186	$250	$203
70	CONSOLIDATED NATURAL GAS	130596475001	169%	$600	$355	$246	$157
71	TELEDYNE INC	952282626001	281%	$379	$135	$244	$211
72	DELMARVA POWER & LIGHT	510084283001	200%	$477	$238	$239	$179
73	HARSCO CORPORATION	231483991219	483%	$291	$60	$231	$216
74	CBS INC	130590730001	159%	$615	$387	$228	$131
75	NORTHWESTERN MUTUAL LIFE	390509570002	258%	$357	$138	$218	$184
76	HOUSEHOLD INTERNATIONAL	363121988001	169%	$533	$316	$218	$139
77	AMERICAN NATL RED CROSS	530196605001	170%	$525	$308	$216	$139
78	LITTON INDUSTRIES INC	951775499004	313%	$316	$101	$215	$190
79	GENERAL DYNAMICS	131673581002	381%	$291	$77	$215	$196
80	BOY SCOUTS OF AMERICA	221576300001	165%	$537	$326	$211	$130
81	GTE NORTH INC	351703045002	210%	$401	$191	$210	$162
82	WESTERN & SOUTHERN LIFE	310487145004	173%	$495	$287	$208	$136
83	SCHERING CORPORATION	221261880001	161%	$543	$337	$207	$123
84	FARMERS GROUP INC	950725935001	161%	$545	$338	$206	$122
85	GTE HAWAIIAN TELEPHONE	990049500001	189%	$436	$230	$205	$148
86	CHASE MANHATTAN BANK	132633612001	158%	$558	$354	$204	$115
87	CONTEL CORP	430768559001	155%	$566	$365	$202	$110
88	SAUDI ARABIAN OIL	980105730001	167%	$501	$300	$201	$126
89	BROOKLYN UNION GAS	110584613001	181%	$446	$246	$200	$138
90	NATIONSBANK CORP	560906609001	165%	$504	$306	$199	$122
91	BRIGGS & STRATTON	390182330001	152%	$577	$379	$198	$103
92	ROHM AND HAAS CO	231028370004	256%	$317	$124	$193	$162
93	OSCAR MAYER FOODS	222354725003	251%	$309	$123	$186	$155
94	ALCANCORP	341225551001	169%	$454	$268	$186	$118
95	BANK OF NEW YORK	132614959005	174%	$433	$249	$184	$122
96	GTE NORTHWEST	910466810001	212%	$348	$164	$184	$143
97	CAROLINA POWER & LIGHT	560165465001	157%	$489	$312	$177	$99
98	CARPENTER TECHNOLOGY	230458500010	156%	$476	$305	$171	$94
99	ROCHESTER GAS & ELECTRIC	160612110003	159%	$450	$283	$167	$97
100	MERCANTILE STORES	510032941002	240%	$286	$119	$167	$137

NOTE: ALL DATA IS PRESENTED AS REPORTED ON THE 1993 FORM 5500 TAPES
LIABILITIES HAVE BEEN ADJUSTED TO 7.25%

Reversions in the 1980s fell with the introduction of excise taxes on reversions.

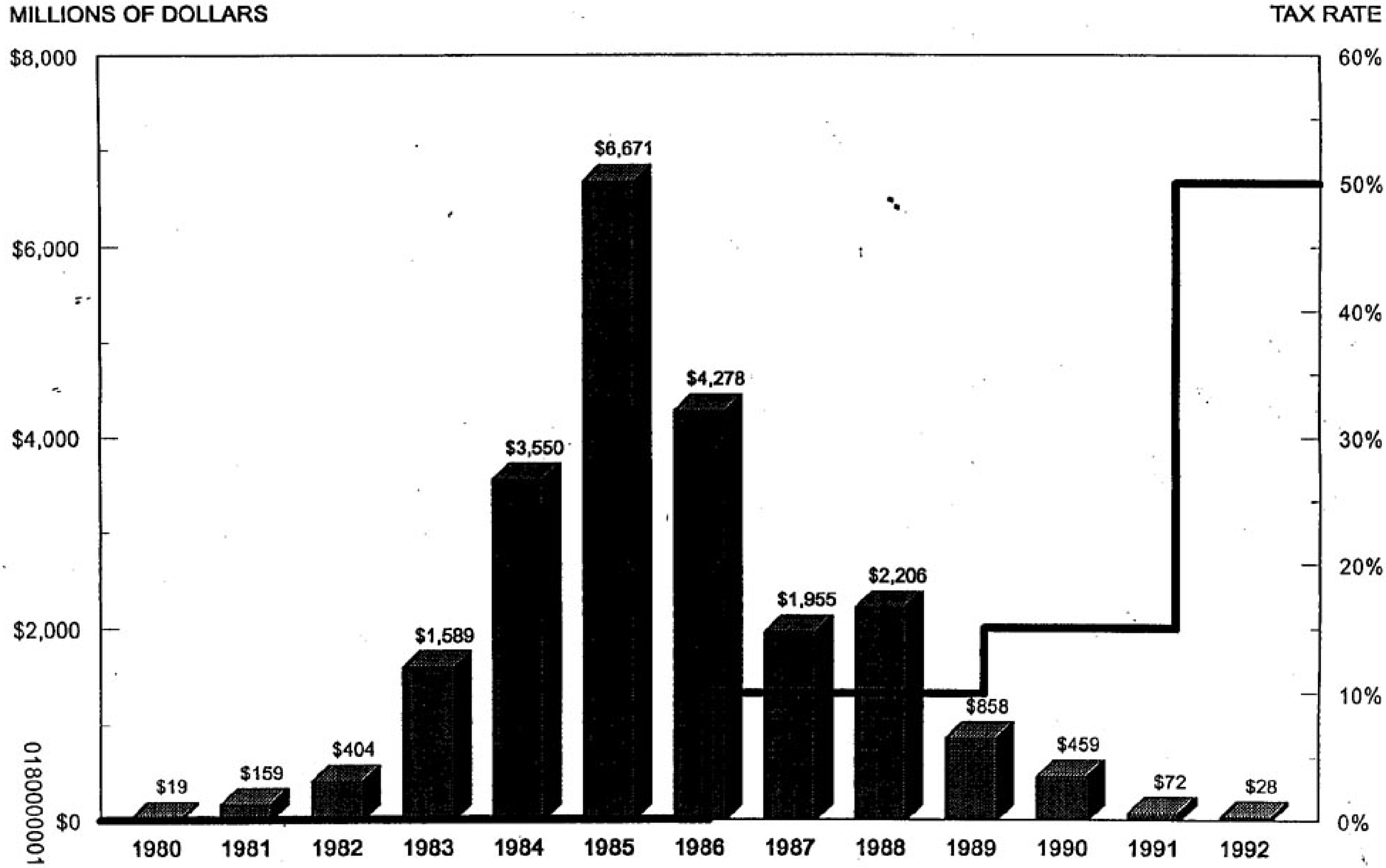
A 10 percent excise tax on reversions was introduced in the Tax Reform Act of 1986;

The tax was increased to 15 percent in the Pension Changes Under Technical and Miscellaneous Revenue Act of 1988;

... and was again increased to a minimum of 20 percent and a maximum of 50 percent in the Omnibus Budget Reconciliation Act of 1990.

EFFECTS OF THE REVERSION TAX

REVERSIONS OF $1 MILLION OR MORE 1980 -1992



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PENSION TALKING POINTS

Background

In the 1980's, Republican Administration policy allowed employers to remove excess assets from pension plans. Over $20 billion was removed. A 1990 law imposed a stiff excise tax, putting an end to these raids.

Meanwhile, in certain sections of heavy industry (air, auto steel, tire), underfunding of pensions grew to $71 billion. The Administration's Retirement Protection Act (enacted as part of GATT) is aimed at eliminating pension underfunding.

The proposed change would allow companies to take money away from pension plans freely, for any purpose, without telling their workers.

Sound Bites That Have Worked.

- Once again it is open season on pensions.
- This raid threatens unprecedented damage to pensions. Companies will once more be able to take the money and run leaving retirees and taxpayers holding the bag (or at risk).
- The provision could take $30 to $40 billion[1] away from pensions and the retirement security of millions of workers.
- This practice was allowed in the 1980's when $20 billion left pensions. Now companies would be able to take another $30 to $40 billion away from pensions. That would reverse the progress that we have made to shore up pensions and keep retirement security.
- The pension system is already underfunded by $71 billion. This could add billions more to pension underfunding.

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[1] This is the Joint Tax Committee figure. The Treasury Department thinks it may be high, so we attribute the number to the Tax Committee.

- The Savings and Loan situation taught us that we should keep government insurance risks under control. This change will only increase risk.

- At a time when we need to increase national savings, this provision would take money away from retirement savings. It seeks revenue not retirement security.

"Top 50".

Since 1989, the PBGC has issued a list of the 50 with the largest pension underfunding. Many companies are on the list for more than one year. The PBGC has identified twenty companies on the list at least one year that took large reversions from an overfunded pension plan and let underfunding in another plan persist.

An example is the Goodyear Tire and Rubber Company which took a $400 million reversion in 1988 from it plan for salaried workers. Its pension plan for rubber workers is now underfunded by $388 million. Goodyear could have used these funds to improve the pensions of worker plans.

Other Examples.

- ENRON: TODAY'S OVERFUNDED PENSION PLAN CAN BECOME TOMORROW'S UNDERFUNDED PENSION PLAN.

The Enron Corporation, a Houston oil and gas company, removed $232 million from its pension plan in 1986. That plan is now underfunded by $83 million.

- PACIFIC LUMBER COMPANY: REAL PEOPLE GET HURT.

Bill Hunsaker worked for the Pacific Lumber Company for 47 years. Pacific Lumber was taken over in a leveraged buyout by the Maxxam group. Pacific Lumber was a target for the takeover because it had a well-funded pension plan. After the takeover, Maxxam terminated the pension plan Mr. Hunsaker was in, taking over $50 million to pay financing costs of the leveraged buyout. When the plan terminated, Maxxam purchased annuities from Executive Life Insurance Company of California.

What did Bill Hunsaker get? An annuity from Executive Life -- which later failed, reducing an annuity that was already much smaller than Hunsaker expected from Pacific Lumber by 30%. Similar things happen at Revlon -- where

$100 million was pulled out of the pension plan and retirees got executive life annuities. Maxxam and Revlon did agree to make up the benefit loss, but hard-working Americans shouldn't be required to go on CNN and NBC to get the pension they worked for.

♦ <u>A & P: CORPORATE RAIDING</u>

When the Tengelmann Group, a German company, took over A & P in 1982, it immediately terminated A & P's pension plan and stripped out over $270 million in assets to pay for the takeover. The new foreign owners then down-sized the company and ended the long-standing A & P practice of giving benefit increases to retirees to protect them from inflation. This opened the way for corporate raiders to use reversions to finance takeovers. In two thirds of the largest buyout transactions in 1980's pension funds were used.