

CIEBA

THE COMMITTEE
ON INVESTMENT
OF EMPLOYEE
BENEFIT ASSETS

The Honorable Barbara Boxer
United States Senate
112 Hart Senate Office Building
Washington, DC 20510

Dear Senator Boxer:

Financial Executives Institute's Committee on Investment of Employee Benefit Assets (CIEBA) is writing to provide our views on legislative proposals which would limit investment in employer stock to 10% in defined contribution pension plans.

The Committee on Investment of Employee Benefit Assets is the policymaking body for Financial Executives Institute on all pension investment and fiduciary issues. CIEBA represents corporate pension plan sponsors who have fiduciary responsibility for \$865 billion in assets on behalf of 14.3 million plan participants and beneficiaries. \$570 billion of CIEBA assets provide defined benefit pensions. One-third or \$295 billion of CIEBA assets provide defined contribution or 401(k) pensions. It is important to note that 92% of CIEBA's 401(k) plan participants and beneficiaries will receive pension benefits from both a defined benefit and defined contribution plan. Financial Executives Institute is a professional association with over 14,000 members who are chief financial officers, treasurers and controllers from over 8,000 companies.

Employer stock is a competitive and worthwhile investment option for 401(k) retirement savings. \$110 billion of CIEBA 401(k) assets are invested in employer stock. These investments permits employees to directly participate in the success of the company through dividends and stock appreciation. Stock ownership gives employees a direct ownership interest in the company they work for. This is an important point to both an employee and employer. Employer stock matching contributions have been used with great success to encourage and increase 401(k) participation and savings. Attempts to restrict participation in employer stock could have serious consequences that limit employer matching contributions made in employer stock and more importantly, employees' ability to participate in the success of their employer.

CIEBA staunchly believes that a strong and growing voluntary employer-sponsored retirement system is the key component to individual retirement security. As a nation, we continue to save at very low levels. Questions about the role, reliability and adequacy of Social Security in providing retirement income continue to rise. Employer-sponsored pensions are increasingly becoming the major component of retirement security. In 1995, 133 CIEBA members were responsible for the investment of almost \$300 billion or almost half, 48 percent, of all the nation's defined contribution assets. CIEBA's 401(k) assets provide retirement savings for five million 401(k) participants.

As fiduciaries for both defined benefit and defined contribution plan assets, we believe retirement security must be protected and preserved. The 401(k) savings plans that our companies voluntarily sponsor have proven to be an increasingly effective and systematic way for millions of employees to save for their retirement. In 1995, over \$16 billion was saved in CIEBA 401(k) defined contribution plans. 65% of these contributions were made by employees and 35% were employer matching contributions. In that same year, CIEBA 401(k) plans made \$20 billion in pension payments to over one million retirees.

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The Employee Retirement Income Security Act of 1974 (ERISA) continues to provide essential safeguards to protect and preserve retirement savings. ERISA requires that all fiduciaries must act solely in the interest of plan participants and beneficiaries and for the exclusive purpose of providing retirement benefits. Abuses that jeopardize pension security cannot be tolerated. ERISA's prudence rule dictates that a fiduciary cannot concentrate pension investments in underperforming or illiquid assets.

The steady growth of 401(k) assets to \$625 billion is a testament to ERISA. ERISA's regulatory system works well for the 23 million individuals in 401(k) plans. Further, CIEBA believes that the highly publicized loss experienced by Color Tile's 401(k) participants is an intolerable exception to the outstanding success of defined contribution plans in providing retirement income. CIEBA believes that effective enforcement of ERISA's already existing prudence and exclusive benefit rule should protect participants in cases like Color Tile where apparently employees' savings were wrongfully directed to an illiquid poorly performing asset.

The strict application of ERISA's fiduciary provisions will better help protect the retirement security of millions of employees covered by employer-sponsored defined benefit and 401(k) defined contribution pension plans from situations like Color Tile where existing law already applies. Further legislation or regulation such as Title 2 Section 201 of The Retirement Security Act (S.14); Title 3 Section 302 of The Comprehensive Women's Pension Protection Act (S.320/H.R.766); Title 4 Section 401 of the Comprehensive Pension and Retirement Security Act (H.R.83); and The 401(k) Pension Protection Act (S.106/H.R.818) is unnecessary. Rather than legislating to correct a past problem such as Color Tile, efforts should be focused on new ways to strengthen and grow a healthy, vital private retirement system that will be able to provide retirement income permitting our aging population to live in dignity and financial security when they retire.

Thank you for consideration of CIEBA's views. We would be happy to discuss this issue with you and your staff at your convenience.

Sincerely,


James E. Bayne
Chairman