



FINANCIAL EXECUTIVES  
INSTITUTE

1100 Seventeenth Street, N.W.  
Suite 1203  
Washington, D.C. 20036  
(202) 659-3700

POSITION ON EXCESS ASSET TRANSFER

FEI is a professional association of 13,000 financial executives representing over 7,000 companies based in the United States and Canada. As the leading advocate for corporate financial management, FEI is concerned with the quality and cost of health care in the U.S. and is committed to improving the current health care system. To this end, the Institute supports the development of effective and realistic initiatives to change the methods of financing, administering and delivering health care.

FEI believes that employers should have the ability to prefund future retiree health care benefits on a tax-favored basis. We recognize that the realities of the federal budget deficit may delay the authorization of an appropriate prefunding vehicle. In the interim, however, we endorse the use of excess pension assets for funding retiree health benefits as a significant first step towards achieving retiree health care benefit security. This initiative can be taken without increasing the federal deficit.

The primary purpose of a retiree health care transfer is to provide enhanced benefit security for health plan participants. The existence of a dedicated fund whose assets are used solely to provide retiree health benefits will increase benefit security by insulating the payment of benefits from corporate financial performance. The existence of tax-advantaged funding would better enable employers to maintain their commitment to providing retiree health benefits in light of increasing health care costs.

Any meaningful proposal must provide appropriate incentives for corporations to take advantage of the opportunity to secure retiree health benefits. The transfer of excess pension assets should be a tax-exempt transaction and earnings on the transferred assets should continue to be exempt from income tax and unrelated business income tax. In addition, the proposal should not include provisions which would increase the cost of providing pension benefits or require that these benefits be annuitized.

The interests of pension plan participants can be adequately protected by providing that a reasonable surplus over pension liabilities be maintained when transferring assets. Pension plan benefits, not pension plan assets, represent the substance of the employer's pension promise to employees. However, a provision which would limit the ability of an employer to take an asset reversion from a pension plan during the period in which the retiree health trust holds transferred pension assets merits discussion.

Legislation permitting the transfer of excess pension assets for retiree health benefits on the terms outlined above would be a significant first step in addressing the problem of retiree health benefits. We strongly support the passage of such legislation.