

INFRASTRUCTURE INVESTMENT COMMISSION

2167 RAYBURN

**U.S. HOUSE OF REPRESENTATIVES
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**Joseph Pellegrino
Vice President
Aluminum Company of America**

for

**Financial Executives Institute
Committee on Investment of Employee Benefit Assets**



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I represent the Committee on Investment of Employee Benefit Assets (CIEBA) of the Financial Executives Institute. Financial Executives Institute, the leading advocate of corporate financial management, is a professional association of more than 14,000 senior financial executives from over 8,000 major companies throughout the United States and Canada. CIEBA, a technical committee of Financial Executives Institute, is a nationally recognized voice for those corporate executives who are responsible for the investment of pension and employee welfare benefit assets regulated under the Employee Retirement Income Security Act (ERISA). CIEBA's 40 members collectively manage over \$384 billion dollars of these assets for over 5.3 million plan participants including both union and non-union employees, retirees, and their beneficiaries.

Pension funds are not only significant sources of capital but are also sources of current income. To illustrate, in 1990 pension distributions of \$234.3 billion exceeded Social Security Old Age and Survivor distributions of \$223 billion by 5%. Privately sponsored pension plans constituted 60% of all pension payments.

CIEBA agrees with the following three policies adopted by the Task Force created by Governor Cuomo in New York state to study the feasibility of Economically Targeted Investments.

First, the two legal precepts of pension fund investing - the duty of prudence and the exclusive benefit rule - should not be subordinated to any other criteria.

Second, pension funds should not undertake investments which produce concessionary rates of return for the funds in order to promote social goals or achieve economic development goals. A concessionary investment is one with a low rate of return without a suitable low level of risk, or a high risk investment without suitable return.

Third, the participation of pension funds in Targeted Investment programs, including those which may be developed, should be voluntary and not mandatory.

CIEBA believes collateral benefits of creating new jobs, creating new housing, and spurring innovation and investment are already being provided by pension funds through investments in stocks, bonds, real estate, and venture capital. We do not believe that any changes are necessary in ERISA to permit pension funds to do Targeted Investments. The overriding guideline is that risk and return factors receive the highest priority.

As an example, using CIEBA's 1991 asset allocation survey data representing 40 companies with \$285 billion in assets of defined benefit plans approximately 26% was invested in U.S. fixed income securities and 47% was invested in U.S. equities. These funds are used by companies to pay down debt, to expand, to make capital expenditures so they will be more viable and competitive and also

to keep or create jobs. CIEBA members also have about \$3 billion invested in venture capital to help finance the development of new companies and an additional \$19 billion invested in real estate. The 1991 defined benefit contributions for these 40 companies totaled \$2.4 billion while withdrawals totaled \$18.6 billion.

These same 40 companies have \$98 billion in defined contribution plans. Of this amount 36% is invested in investment contracts with insurance companies. These companies have used these funds to support the private placement corporate debt and equity markets, the real estate market, both commercial and residential, venture capital, and the public debt and equity markets. Contributions in 1991 for defined contribution plans were \$8.2 billion while withdrawals were \$5.7 billion.

Any new type of security should meet two simple criteria. First, does the new security make sense and second, can the pension officer understand it. If it possesses these two characteristics, is a fixed rate security with some type of government guarantee and is competitive on a rate of return basis compared to other investments with similar risk characteristics then it has a good chance of competing for the \$74 billion in U.S. domestic fixed income that CIEBA members have purchased. A second way to tap the pension and savings plan market is to develop securities and tax policies that are attractive to insurance companies that can be used as collateral for the approximately \$35 billion in investment contracts that CIEBA members hold in defined contribution plans.

In summary, CIEBA supports the ERISA mandate to invest exclusively in the best interest of plan participants, and believes that those Targeted Investments such as infrastructures that meet this criteria will attract funding.

Thank you for the opportunity to comment on this subject.