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Notes

## Evaluating the Archer-Shaw Social Security Proposal

by *Craig Copeland, EBRI*

### *Introduction*

Social Security is emerging as one of the biggest policy differences between the likely Democratic and Republican nominees for president this year—although both candidates, so far, have outlined only general ideas on Social Security reform and have not advanced any specific proposals. Vice President Al Gore's position is that the normal retirement age should not be raised, and the present system should be preserved.<sup>1</sup> In contrast, Texas Gov. George W. Bush has voiced support for the establishment of individual accounts, using a portion of the existing payroll taxes to fund these accounts (the so-called "carve-out" approach), and said he will use "political capital" to achieve this reform.

However, Bush has not explained how these accounts would be structured or how the transition costs<sup>2</sup> necessary to establish this system would be financed. Nor has Gore proposed how the present system would be financed to address the projected actuarial deficit now facing the program.<sup>3</sup> Yet, both candidates state that Social Security is a very important program that somehow must be "preserved," "saved," or

"fixed" in order for it to serve the American public well into the 21<sup>st</sup> century.

To date, Congress has also ignored the specifics necessary to enact any changes in the program that would eliminate the projected actuarial deficit. However, a few members of Congress have expressed hope that the issue will be debated this year, and Gov. Bush's endorsement of a partial "privatization" of the system through individual accounts has already re-energized public discussion of Social Security. At least one significant proposed bill expected to be introduced later this year in the House of Representatives is currently being drafted by Reps. Bill Archer (R-TX), chairman of the full Ways and Means Committee, and Clay Shaw (R-FL), chairman of its Subcommittee on Social Security. This legislation will be based on the Social Security proposal they released in 1999.

This *EBRI Notes* article closely examines the Archer-Shaw 1999 proposal, as it provides specific parameters that can be analyzed, incorporates the key concept of individual accounts that Gov. Bush has endorsed, and is the foundation for what is likely to be a major Republican Social Security reform proposal to come out of the current session of Congress.<sup>4</sup> The analysis uses the EBRI-SSASIM2 Policy Simulation Model,<sup>5</sup> in both deterministic and stochastic modes,<sup>6</sup> to evaluate the proposal's prospects of achieving actuarial balance under various assumptions of equity market returns and

administrative costs. Previous EBRI-SSASIM2 analyses have examined other proposed Social Security reform legislation.

### **The Archer/Shaw Proposal**

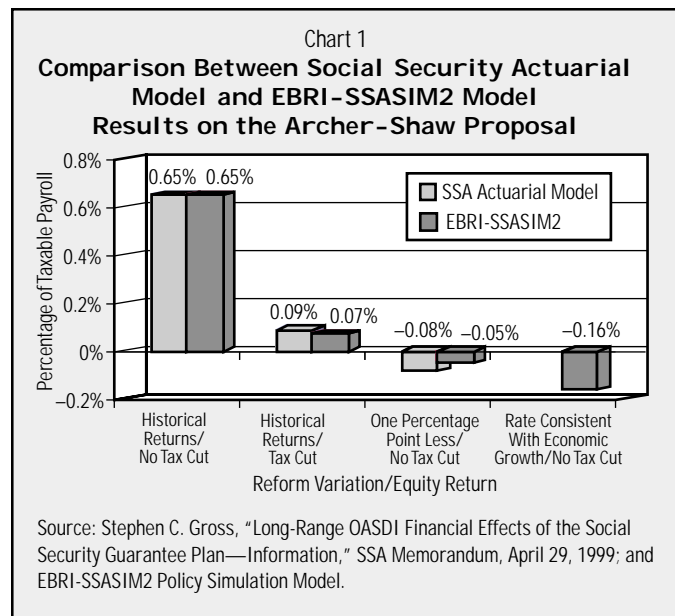
The Archer-Shaw proposal would establish mandatory individual accounts for each eligible worker. These accounts would be financed by refundable tax credits from general tax revenues equal to 2 percent of workers' Old-Age Survivors and Disability Insurance (OASDI) taxable earnings for each year. The accounts would be managed by qualified professional money managers and be invested in qualified mutual funds, with an allocation of 60 percent in stock index funds and 40 percent in corporate bonds.

The current-law benefit would be established as the minimum benefit, with some beneficiaries receiving higher benefits, depending upon the investment performance of their individual accounts. A beneficiary would receive the higher benefit if his or her account balance is large enough to purchase an annuity that is larger than what the current-law benefit would provide. Otherwise, a beneficiary would receive the current-law benefit, with any shortfall from the account balance being funded from the OASDI payroll tax revenue.

There are two fundamental reasons for establishing the individual accounts in this proposal, according to Reps. Archer and Shaw. First, the accounts would allow the

program to take advantage of the historically higher returns available in the equity markets relative to government bonds without direct investment in the equity market by the federal government. This proposal would explicitly garner any equity market returns that are superior to government bond returns, under a provision requiring account balances to be "clawbacked," or used to offset benefits being paid from payroll tax revenue. Consequently, if the individual accounts produce superior returns, less payroll tax revenue would be needed to finance the current-law benefits. Second, the individual accounts are projected to increase national savings, which, it is believed, would then lead to an increase in economic growth and corporate profits. The projected simultaneous increase in corporate profits and corporate tax revenue would allow the payroll tax to be gradually reduced to 4.4 percent, starting in 2040.<sup>7</sup>

This article focuses on the first reason for establishing individual accounts, and assumes different rates of return for the accounts. Analysis of the second reason is beyond the scope of this discussion.<sup>8</sup>



### **Deterministic Predictions of Actuarial Balance for the Archer-Shaw Proposal**

The actuarial model used by the Social Security Administration (SSA) in evaluating Social Security reform proposals uses the same predetermined values

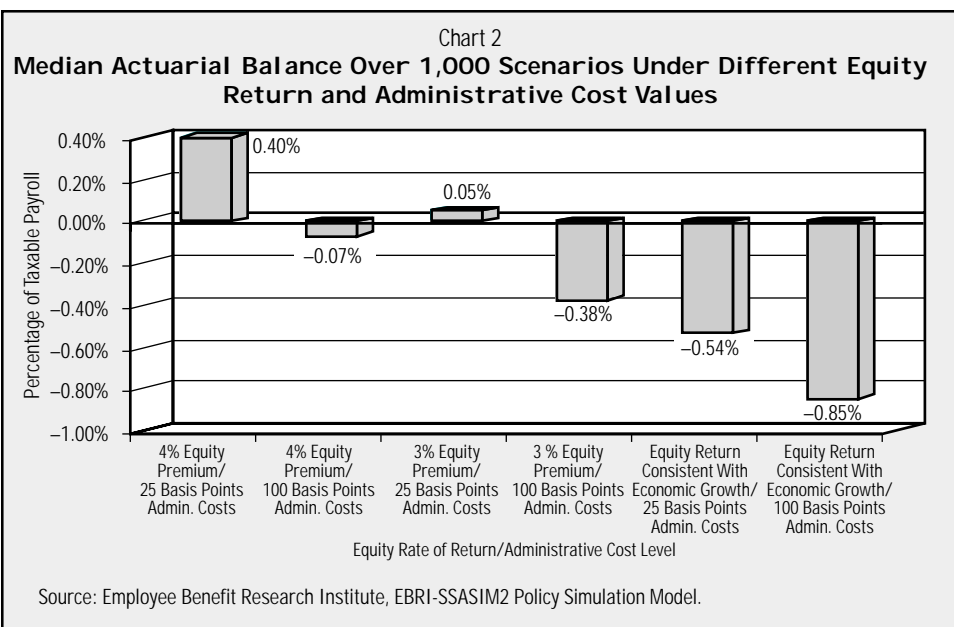
or a predetermined path of values for the variables of interest over the 75-year period, which is the length of the projection. EBRI-SSASIM2 can also be run using the deterministic assumptions from the SSA's actuarial model. This allows EBRI-SSASIM2 to be benchmarked against the SSA's results.

Chart 1 compares the results from the SSA model and EBRI-SSASIM2 model using the assumptions from the 1999 Trustees Report, as well as the assumptions in the 1999 SSA Memorandum that evaluates the Archer-Shaw proposal.<sup>9</sup> For the proposal that included no tax cuts in the later years and assumes the historical rate of return for the equity market (7 percent real rate of return), both models estimate a 0.65 percent of taxable payroll surplus over the 75-year period. In the case where there are payroll tax cuts and the historical rate of return, SSA reports a 0.09 percent of taxable payroll surplus, while the EBRI-SSASIM2 model calculated a 0.07 percent of taxable payroll surplus. In addition, SSA considered the proposal assuming that equity and bond returns were 1 percentage point lower than the historical returns. Under these

return assumptions, SSA estimated a 0.08 percent of taxable payroll deficit, while the EBRI-SSASIM2 model estimated a 0.05 percent deficit. Consequently, the EBRI-SSASIM2 results are very close to those of SSA. In the final column of the chart, the EBRI-SSASIM2 model uses the equity rate of return that is consistent with the assumed growth rate in the economy<sup>10</sup> from the 1999 Trustees Report to provide another actuarial balance estimate for the proposal. Using this equity return rate, the actuarial balance is projected to be -0.16 percent of taxable payroll.

### **Possible Values for the Equity Return and Administrative Cost Rates**

As can be seen from the previous section, the assumed equity rate of return has a large impact on whether or not the proposal achieves actuarial balance over the 75-year period. Consequently, the rate of return chosen as the probable or “correct” rate to evaluate proposals will directly correlate with the attractiveness of the proposal. The historical real rate of return for the equity market has been approximately 7 percent, which translates into a 4 percent equity premium (the amount of the return above the rate of return on a government bond). However, considering the very high price-earnings ratios in today’s stock market, some analysts suggest it is unlikely that the equity premium will continue to be this high over the next 75 years. In fact, the Social



Security 1999 Technical Panel on Assumptions and Methods recommended that the Social Security actuaries reduce the equity premium they use to evaluate proposals that involve equity investments from 4 percent to 3 percent.<sup>11</sup> Finally, some analysts argue that the likely equity rate of return will have an equity premium in the range of 0.5 percent to 1.5 percent, if the Trustees’ projected growth in the economy is accurate.<sup>12</sup>

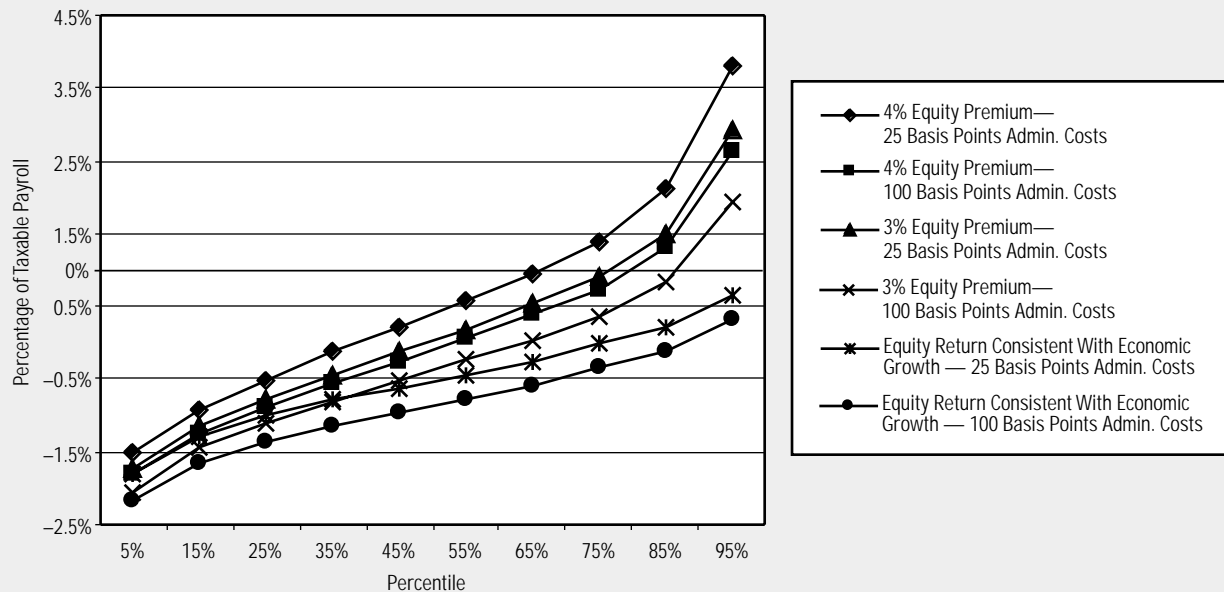
Another factor affecting the rate of return is the costs of administering individual accounts. The Archer-Shaw proposal assumes that the accounts can be administered for 25 basis points (0.25 percent of assets). However, the cost of administering individual accounts is based on the services and options available to the account holders as well as the characteristics of individuals with these accounts.<sup>13</sup> The U.S. General Accounting Office examined numerous studies of the potential costs of administering individual accounts,<sup>14</sup> and found that potential costs could range from 0.10 percent to 3.0 percent of account balances (or 10 to 300 basis points), with the lower numbers representing centrally administered and fairly restrictive

account options such as those being proposed by Archer-Shaw.

### **Stochastic Estimates of Actuarial Balance**

In the preceding section, estimates were derived from models using deterministic (or predetermined) values over the 75-year period. However, in reality, economic variables within the economy do not follow a predetermined path or have the identical value throughout a 75-year period. The EBRI-SSASIM2 model reflects the uncertainty that is inherent in the economy by allowing for random outcomes from a distribution of likely outcomes over the 75-year period. These distributions are based on the intermediate assumptions of key economic and demographic variables in the 1999 Social Security Trustees report. In addition, three equity rates of return (4 percent and 3 percent equity premiums, and the rate consistent with economic growth) and two different levels of administrative costs (25 and 100 basis points) are used to calculate six different sets of results over 1,000 likely scenarios. All of the results assume no future payroll tax cuts.

Chart 3  
Actuarial Balance Over 1,000 Scenarios for Different Equity Returns and Administrative Cost Levels



Source: Employee Benefit Research Institute, EBRI-SSASIM2 Policy Simulation Model.

The results from these runs are summarized in chart 2 and chart 3. The median values are present in chart 2, and percentiles in chart 3. For the low administrative costs, the median actuarial balance ranges from 0.40 percent of taxable payroll to -0.54 percent of taxable payroll. For high administrative costs, the median actuarial balance ranges from -0.07 percent to -0.85 percent. Looking at the percentiles, under the assumptions of the low administrative cost and a 4 percent equity premium, the proposal has a 60 percent chance of providing a non-negative actuarial balance over the 75-year period. However, under the assumptions of high administrative costs and an equity rate consistent with projected economic growth, the proposal has a substantially lower probability (13 percent) of having a nonnegative actuarial balance.

### Conclusions

The ultimate success of a Social Security reform proposal such as

that advanced by Reps. Archer and Shaw will depend on two key variables: the return on equities and the costs of administering the accounts. As this article shows, high equity returns and low administrative costs would give the proposal a good chance of successfully achieving a positive actuarial balance. In contrast, if the equity market does not fair as well, and the costs of administering the accounts turn out to be larger than the proposal predicts, the chance that the proposal will achieve a positive actuarial balance is minimal. Consequently, the probability of enacting a future tax cut and still achieving actuarial balance appears to be unlikely, as can be seen when the proposal is modeled stochastically. However, the Archer-Shaw proposal would bring the program closer to actuarial balance over the next 75 years than leaving the program as it now stands.

### Endnotes

<sup>1</sup> Recently, Gore has proposed increasing the widow's benefit and eliminating the so-called "motherhood penalty" by allowing individuals to be credited, as earnings toward the calculation of benefits, \$16,500 for each year, up to five years, that they are out of the work force with a child under age five. However, the only funding source mentioned for these new benefits is the budget surplus.

<sup>2</sup> Transition costs are the costs incurred that would be necessary to bring the Social Security system into fiscal balance when it is altered. In the case of individual accounts, transition costs are a particularly important issue, since not only would the present actuarial deficit need to be covered but also the funds that would be used to establish individual accounts.

<sup>3</sup> The Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, March 30, 2000, reports that under their intermediate assumptions the program is projected to run a deficit of 1.89 percent of taxable payroll over the next 75 years.

<sup>4</sup> The Employee Benefit Research Institute examined the Archer-Shaw proposal previously. See Craig Copeland, Jack VanDerhei, and Dallas Salisbury, "Social Security Reform: Evaluating Current

Proposals," EBRI Issue Brief no. 210 (Employee Benefit Research Institute, June 1999). However, in that study, only a proxy for the proposal was evaluated. A new feature, a clawback of individual account balances, has been subsequently added to the model that allows for a more thorough evaluation.

<sup>5</sup> For more information about the model, see Kelly A. Olsen, Jack VanDerhei, Dallas L. Salisbury, and Martin R. Holmer, "How Do Individual Social Security Accounts Stack Up? An Evaluation Using the EBRI-SSASIM2 Policy Simulation Model," EBRI Issue Brief no. 195 (Employee Benefit Research Institute, March 1998); and Martin R. Holmer, Introductory Guide to [EBRI-]SSASIM[2] (Washington, DC: Policy Simulation Group, March 2000) available at [www.radix.net/~holmer/guide.pdf](http://www.radix.net/~holmer/guide.pdf).

<sup>6</sup> The deterministic mode is one in which the assumptions of future economic and demographic variables are set at certain levels and remain at those levels for the entire 75 years being evaluated. However, some trends can be included in the deterministic mode, but they are predetermined and will reach ultimate levels for some remaining period of evaluation. In contrast, in stochastic mode each of the economic and demographic variables are allowed to fluctuate randomly from a distribution of possible outcomes centered on the basic assumption values for each variable. Thus, in stochastic mode, the outcomes of the model are randomly generated from likely possibilities, mimicking the uncertainty inherent in the future economy.

<sup>7</sup> For further information about this proposal, see Stephen C. Goss, "Long-Range OASDI Financial Effects of the Social Security Guarantee Plan—INFORMATION." Social Security Administration Memorandum, April 29, 1999.

<sup>8</sup> See Martin Feldstein, "Social Security Reform: America's Golden Opportunity," *The Economist* (March 13, 1999) for a supportive discussion of this idea. For a skeptical view, see Dean Baker and Mark Weisbrot, *Social Security: The Phony Crisis* (Chicago: University of Chicago Press, 1999).

<sup>9</sup> Stephen C. Goss, "Long-Range OASDI Financial Effects of the Social Security Guarantee Plan—INFORMATION." *Op. cit.*

<sup>10</sup> The rate consistent with economic growth is defined in this case as being the rate that will ensure that the price-earnings ratio of stocks does not go to infinity but instead be equal with the ratio at the beginning of the simulation in each run, approximately 14. This rate is a nominal value of 8.1 percent, which translates to an equity premium over bonds of about 1.5 percent.

<sup>11</sup> See 1999 Technical Panel on Assumptions and Methods, *The 1999 Technical Panel on Assumptions and Methods Report to the Social Security Advisory Board*, November 1999, [www.ssab.gov/Rpt99\\_TOC.html](http://www.ssab.gov/Rpt99_TOC.html). Others suggesting a lower equity premium include Peter Diamond, "What Stock Market Returns to Expect for the Future?" Issue Brief, Center for Retirement Research (September 1999). In addition, studies by JP Morgan and Morgan Stanley Dean Witter economists conclude that between a 1 percent and 3 percent equity premium is likely. A summary of these studies is in Employee Benefit Research Institute, "Implications of Investing Social Security Funds in the U.S. Stock Market," EBRI Notes, no. 9 (Employee Benefit Research Institute, September 1999).

<sup>12</sup> Dean Baker and Mark Weisbrot, *Social Security: The Phony Crisis*. *Op. cit.*

<sup>13</sup> See Kelly Olsen and Dallas L. Salisbury, "Individual Accounts: Issues in Assessing Administrative Feasibility and Costs," EBRI Issue Brief no. 203 (Employee Benefit Research Institute, November 1998) for more information about factors affecting the costs of administering individual accounts.

<sup>14</sup> U.S. General Accounting Office, *Social Security Reform: Administrative Costs for Individual Accounts Depend on System Design*. GAO/HEHS-99-131 (Washington, DC: U.S. General Accounting Office, June 1999).

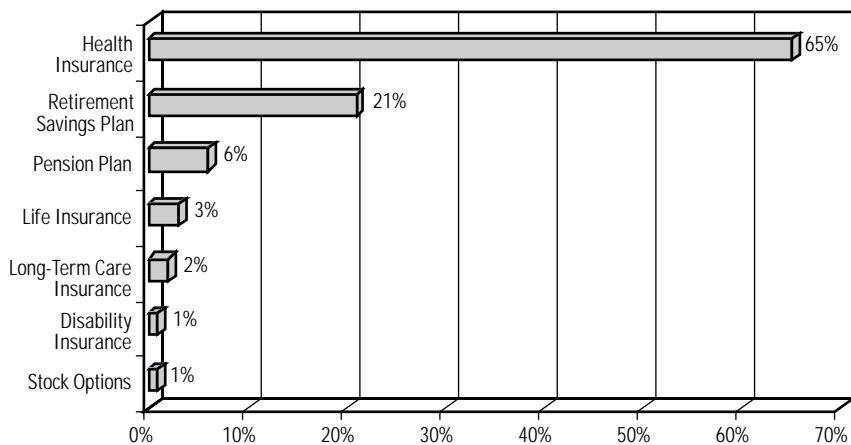
## Value of Benefits Constant in a Changing Job Environment: The 1999 WorldatWork/EBRI Value of Benefits Survey

The Employee Benefit Research Institute (EBRI) conducted "value of employee benefits" surveys in 1991 and 1996 to determine the relative importance of different benefits to workers and to assess the role played by benefits in job choice and job change. Collaborating with *WorldatWork*, the survey was repeated in 1999.

The respective surveys provide a picture of clear consistency on some benefits, while showing substantial change on others. They document that benefits are very important in the "new economy," resulting from the decade of change experienced during the 1990s, in which much has been written about a changing work force and a changing "social contract" between employers and workers.

As earlier surveys have shown, employee benefits today remain "very important" in job selection: 78 percent of full- and part-time workers in the 1999 *WorldatWork/EBRI Value of Benefits Survey* believe the benefits that a prospective employer offers are very important in their decision to accept

Chart 4  
Most Important Employee Benefit



Source: Employee Benefit Research Institute, WorldatWork, WorldatWork/EBRI Value of Benefits Survey.

or reject a job.<sup>1</sup>

Workers continue to rank their health benefits as the most important of several benefits. Sixty-five percent of workers view their health insurance benefits as most important (chart 4). Defined benefit (DB) pension plans are ranked as most important for 6 percent of workers and 21 percent of workers view defined contribution (DC) retirement savings plans, such as a 401(k) plan, as most important.

In general, most workers are satisfied with their benefits, although some would prefer more benefits while others would prefer more in the form of cash compensation. Specifically, 42 percent of all workers are satisfied with their current benefits package.

While fewer than half of workers are satisfied with their total benefits package, the majority of workers with health insurance benefits through their employer are satisfied with the amount of health benefits they receive through their employer (68 percent) (chart 5). Similarly, most workers with either a DB pension plan or DC retirement savings plan are satisfied with the

plan sponsored by their employer. Seventy-one percent of workers with a pension plan are satisfied with this plan, and 69 percent of those with a retirement savings plan are satisfied with it.

The findings of the 1999 WorldatWork/EBRI Value of Benefits Survey reveal that workers feel that employer-provided employee benefits are a very important component of total rewards in making employment decisions to

accept or reject a job. Health insurance is overwhelmingly the most important benefit to today's workers—apparently because of its more immediate value, while retirement benefits are a strong runner-up. However, in terms of gaining additional benefits, retire-

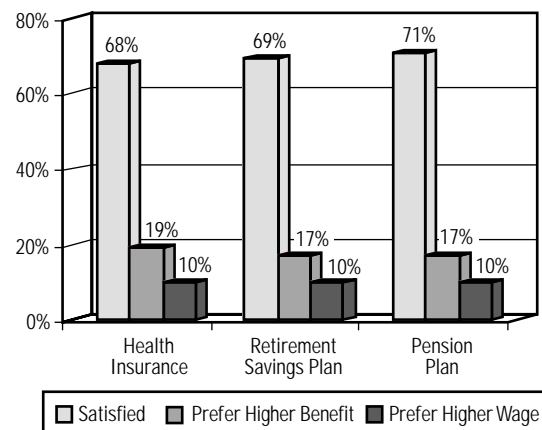
ment and health benefits appear close to equal. This is supported when workers are given the choice between higher salary or hourly wage and increased benefits: Equal proportions of workers choose health insurance and retirement savings plans over more pay.

*Dallas Salisbury is with the Employee Benefit Research Institute. Pamela Ostuw is with Watson Wyatt Worldwide. To order the full survey report, contact WorldatWork at [www.worldatwork.org](http://www.worldatwork.org), or call (480) 951-9191.*

#### Endnotes

<sup>1</sup> "When choosing a job, how important to your decision to accept or reject the job are the benefits (such as retirement plans, health benefits, vacation, sick leave, child care, and life insurance) that a prospective employer offers?"

Chart 5  
Satisfaction with Mix of Benefits and Wages



Source: Employee Benefit Research Institute, WorldatWork, WorldatWork/EBRI Value of Benefits Survey.

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## Washington Update

by Teresa Turyn

### ***Bush Endorses Social Security Accounts***

Texas Gov. George W. Bush has announced that he will be pushing for private accounts within Social Security as a major piece of his presidential campaign, in what could be one of the most politically charged issues of the election. While neither major-party candidate has spelled out the specifics of his plan to avoid the looming shortfall in the Social Security trust funds and achieve 75-year actuarial balance, Bush's aides have said that they envision a plan that would channel about 2 percentage points of the 12.4 percent OASDI payroll tax that is currently split between the employer and the employee (6.2 percent each) into individual accounts.

Vice President Al Gore favors keeping the Social Security program basically as-is, and has sharply criticized Gov. Bush's support for Social Security individual accounts, stating that any diversion of payroll taxes into private investment accounts will further threaten the program's long-term financial solvency. But Republicans point out that some prominent Democrats have also called for individual Social Security accounts (see below). Should Bush win in November, he is certain to claim a mandate to proceed with the first fundamental restructuring of Social Security since it was created in the 1930s.

### ***Bipartisan Social Security Panel Proposed***

On May 4, former Republican presidential candidate Sen. John McCain (R-AZ) and Democrat Sens. Daniel Patrick Moynihan (D-NY) and Bob Kerrey (D-NE) unveiled legislation to establish a bipartisan commission to develop and submit a Social Security reform bill to Congress by Sept. 1, 2001. Called the "Social Security Protection, Preservation and Reform Commission," the proposed board would consist of 12 voting congressional members, equally divided between Republicans and Democrats, with the Social Security Commissioner appointed as a nonvoting member. Similar to a plan being drafted by likely GOP presidential candidate George W. Bush, the commission would be required to recommend an option allowing individuals to participate in private investment accounts. The sponsors say the legislation would not "privatize," but rather "complement" the existing Social Security program.

Sens. Byron Dorgan (D-ND) and Charles Schumer (D-NY) quickly criticized the McCain/Moynihan/Kerrey proposal, warning that investing Social Security taxes in the stock market would risk the retirement security of American seniors.

The Social Security trustees' most recent projections, released in March, indicate that Social Security tax expenditures will begin to exceed trust fund revenues in 2015, with trust fund depletion expected by 2037.

### ***Grassley Drops Pension Waiver***

Responding to substantial public and congressional opposition, Sen. Charles Grassley (R-IA) has agreed to drop his so-called "pension waiver" proposal from the pending bankruptcy reform legislation, H.R. 833. The waiver was added to the bill during a parliamentary procedural move. Grassley's original pension waiver provision would have allowed individuals to waive the protections currently extended to their retirement plan assets if they file for bankruptcy, possibly when they sign up for a loan or credit card.

But in place of the waiver provision, Grassley and Sen. Jeff Sessions (R-AL) are now pushing for a "sliding-scale cap" on retirement assets protected in bankruptcy. Such a cap would allow a 65-year-old individual to protect up to \$1 million of personal retirement assets, for example, while a 21-year-old individual would be able to protect up to \$250,000. Benefit groups representing employers and workers continue to oppose the revised Grassley proposal, arguing that it would threaten many individuals' economic security and would be extremely difficult to administer.

### ***Campaign Developments***

Benefit-related items getting headlines recently include:

- Texas Gov. George W. Bush May 10 proposed a set of tax breaks to encourage more people to buy long-term care insurance and to ease the financial burden on people looking after relatives

## Keeping on Track

*HHS Proposes Legislation on Internet Pharmacies*— The Department of Health and Human Services sent draft legislation to the Senate to regulate Internet pharmacies. The legislation would require Internet pharmacies to be licensed in each state where they deliver drugs or conduct business. The bill responds to growing consumer concerns over safety and Food and Drug Administration concerns of inadequate patient protections. Republican leaders say that passage of legislation is unlikely this year.

*IRS Issues "Same Desk Rule" Relief*— The Internal Revenue Service (IRS) May 5 issued Rev. Rul. 2000-27, allowing employees transferred in connection with certain asset sales to receive 401(k) distributions, even if they continue to perform essentially the same functions for the new employer. This relief from the "same desk rule" applies only to transactions involving the sale of less than 85 percent of the assets of a trade or business, and only if certain other conditions are met. Sponsors of 401(k) plans should carefully review the facts of each business transaction to determine whether distributions can or must be made in reliance on this ruling.

*HIPAA Regulations Expected in 2000*— The Department of Labor (DOL) announced that final regulations implementing nondiscrimination provisions of the Health Insurance Portability and Accountability Act (HIPAA) will be released soon, followed in September by an interim final rule on the 1998 Women's Health Cancer Rights Act. In addition, DOL expects to finalize the interim rules on health care access, portability, and renewability under HIPAA before the end of 2000. However, DOL doesn't expect to issue final rules on the Mental Health Parity Act of 1996 this year.

*DOL to Conduct Outreach Programs to Introduce Revised Form 5500*— DOL has announced that it is partnering with various organizations to conduct a series of outreach programs in major cities throughout the country to introduce the revised Form 5500 to employee benefit plan professionals. These workshops are designed to provide plan professionals an opportunity to learn about the new form directly from senior-level DOL representatives. Registration for the workshops is available at [www.edreg@ifebp.org](http://www.edreg@ifebp.org) or toll-free at (888) 334-3327. For more information, visit the DOL EFAST Web site at [www.efast.dol.gov](http://www.efast.dol.gov)

at home. Bush's proposal would allow individuals of any age to fully deduct the cost of premiums from their taxes (whether they itemize or not), provided they are not covered by Medicare or other policies. In addition, people with aging dependents at home could claim an extra exemption, which would amount to a nonitemized deduction of about \$2,750 per year.

- Democrats May 10 unveiled a Medicare prescription drug plan providing more generous coverage—and higher costs—than a similar plan proposed earlier by House Republicans. Although both parties have now called for expanding the program to cover at least some prescription drug costs

for at least some Medicare recipients, it remains unclear whether the politics of the issue in this presidential election year will permit a compromise to be reached before Congress adjourns.

### **Recent Judicial Developments**

*Partial Ruling in First Union Case*— A Virginia federal district court has dismissed claims that plan participants have a vested right to continue their past investment choices that could not be overridden by a plan amendment (*Franklin et al. v. First Union Corporation et al.*). The case involves former Signet Bank employees who contested 401(k) plan changes instituted after the merger with First Union Bank. In the much-

anticipated decision, the court ruled that a retirement plan may change investment options as long as the sponsor meets the plan's provisions and provides minimum investment choices as specified under Sec. 404(c) of the Employee Retirement Income Security Act of 1974 (ERISA).

The key issues in the case—whether First Union breached its fiduciary duty and violated anti-inurement rules by moving the Signet employees' funds into First Union funds—were referred for later argument before the court. However, the ruling does narrow the focus to the fiduciary standards for selecting investment options and the participant communication requirements that accompany such a plan change.

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*Class Action Filed by SBC Communications Alleging Fiduciary Breach*—On April 18, a class action suit was filed by 18 current and former employees of SBC Communications, Inc., a telecommunications company headquartered in San Antonio, TX, alleging the company improperly manipulated the employee's 401(k) plan accounts for corporate gain.

In 1996, SBC merged with Pacific Telesis Group, whose 401(k) plan participants held stock in AirTouch Communications, Inc. When SBC and AirTouch merged, stock held by Pacific Telesis employees was automatically converted to SBC stock. The action contends that the conversion took place without the participants being provided notice of their rights to avoid the sale of the AirTouch stock or of their rights to be moved into SBC stock. The workers allege that the company breached its fiduciary duties and engaged in self-dealing in violation of ERISA by selling off over \$635 million of former Pacific Telesis employees' holdings in AirTouch, and reinvesting the proceeds in SBC stock, resulting in substantial lost profits to plan participants.

SBC has stated that it did provide notice to management and non-management employees on investment choices for converting their AirTouch Funds, and that the company received no profit from the conversion whatsoever. This case could prove to be a

trend-setter in disputes involving investment choice in employer-sponsored retirement plans

*Supreme Court Takes Up ERISA Non-Fiduciary Liability*—The U.S. Supreme Court heard oral arguments April 17 on the issue of whether a firm that sold securities that eventually became nearly worthless securities to a retirement plan should be held liable under ERISA for engaging in a prohibited transaction. The case involves Salomon Brothers, Inc., which before its merger with Smith Barney, Inc., provided brokerage services to the Ameritech Pension Trust and was arguably a "party in interest" to the plan. During this time, Salomon sold to the plan mortgage participation notes that ended up becoming virtually worthless. Lower courts have held that Salomon was not liable because only fiduciaries may violate ERISA's Sec. 406 prohibited transaction provisions.

## EBRI in Focus

### ***EBRI Board Meets***

The EBRI Board of Trustees met in Washington on May 4 to set plans for the months ahead. Following briefings on the upcoming 2000 elections and possible implications for benefits policy, an overview briefing of the soon-to-be-completed year-end 1999 401(k) participant investment data, and details on work now under way to assess total retirement income prospects of today's workers, the Board decided to replace the Dec. 2-3, 2000 policy forum with a Members-Only Colloquium. Details on the session, which will assess the election outcome, work force and benefit-design trends, and future prospects for benefits, will be sent to Members in the weeks ahead.

### ***May EBRI-ERF Policy Forum***

The May 3 EBRI-ERF policy forum focused on "The Economic Costs of the Uninsured: Implications for Business and Government." Participants engaged in an active discussion of the costs to the nation of a growing uninsured population. Papers from the session are at [www.ebri.org](http://www.ebri.org) and a book on the proceedings of the policy forum will be distributed in the coming months.

On a related topic, EBRI Members should have received a copy of the just-published book on the December 1999 EBRI-ERF policy forum, "The Future of Private Retirement Plans." Additional copies

are available for purchase; please contact Alicia Willis at (202) 775-9132 or willis@ebri.org.

### **RCS Released**

Results of the 2000 Retirement Confidence Survey (RCS) and Minority RCS were released at a May 16 media event at the National Press Club in Washington, DC. Results of the RCS and Minority RCS are available on EBRI's Web site, [www.ebri.org](http://www.ebri.org) and are presented in the June 2000 *EBRI Issue Brief*.

### **Defined Contribution Health Plans—Is It Time?**

That was the topic for EBRI President Dallas Salisbury when he met with CIGNA and 40 corporations in Hartford on May 9. His presentation (available at [www.ebri.org](http://www.ebri.org) in the Members Only section) highlighted the multiple possible definitions for such programs, the hurdles to implementation, and available data on implementations to date.

### **Social Security Electronic Education Services**

The Social Security Administration (SSA) has a number of electronic services available that employers and workers/beneficiaries can access for free. The agency's Web site, Social Security Online ([www.ssa.gov](http://www.ssa.gov)), now offers:

- *A new Retirement Planner* ([www.ssa.gov/retire](http://www.ssa.gov/retire)), which can be used to estimate future Social Security benefits.

- *An electronic newsletter* ("Social Security e-news") which provides monthly updates on developments in Social Security.
- *Electronic ability to request a written copy of your personal Social Security Statement* ([www.ssa.gov/mystatement.htm](http://www.ssa.gov/mystatement.htm))
- *Lots of other information, such as how to apply for Social Security retirement benefits.*

Social Security, and EBRI, urge you to make this information available in your newsletters, with [www](http://www) links, and in employee mailings: Information is power!

### **ASEC and Rep. Gejdenson Co-Host Retirement Planning Conference**

ASEC and Rep. Sam Gejdenson (D-CT) co-hosted *Securing Your Future: A Retirement Planning Conference* on May 6 in Norwich, CT. The conference included a day of seminars and workshops on a variety of topics ranging from tips on saving and investing, to safeguarding your pension, to reducing debt. ASEC hosted a one-hour, interactive workshop entitled, "Do You Have a Retirement Savings Goal? Get a *Ballpark Estimate!*" The event featured well-known author and financial planner Jonathan Pond, and was free to the public.

### **ASEC Materials Development Committee**

ASEC's Materials Development

Committee met May 9 to work on development of several new savings tools, including a credit management tool, a retirement income-replacement tool, and a tool that shows the cost of cashing out of a 401(k) account versus other alternatives (such as leaving the balance with the prior employer, or rolling over the balance to an individual retirement account). The committee also helped critique the redesigned Social Security Web site (including its new retirement planner). SSA recently linked to the ASEC Web site ([www.asec.org](http://www.asec.org))—the only nonfederal agency link.

### **Retirement Savings Education Campaign Partners' Meeting**

ASEC and the U.S. Department of Labor (DOL) co-hosted a Retirement Savings Education Campaign Partners' meeting May 19. As a follow-up to the recent Choose to Save, Forum on Retirement Security and Personal Savings held in April, participants discussed "next steps" regarding the action items that came out of the Forum. In addition, EBRI President Dallas Salisbury and Leslie Kramerich, acting assistant secretary of DOL's Pension and Welfare Benefits Administration (PWBA), led a discussion on an upcoming July 18 event to commemorate the fifth anniversary of the Retirement Savings Education Campaign, as well as the formation of ASEC by EBRI and its partners.

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## New Publications & Internet Sites

### **Employee Benefits**

National Institute of Business Management. Complete Guide to Employee Benefits for Small-Business Owners and Managers. \$79.95 + \$3.50 shipping. National Institute of Business Management, 1750 Old Meadow Rd., Suite 302, McLean, VA 22102-4315, (800) 762-4924, fax: (703) 905-8040.

### **Health Care**

Garber, Alan M. *Frontiers In Health Policy Research 2*. \$20. The MIT Press, Five Cambridge Center, Attn: Order Dept., Cambridge, MA 02142, (617) 253-2889.

William M. Mercer. *Mercer/Foster Higgins National Survey of Employer-Sponsored Health Plans 1999: A Stratified Random Sample of All U.S. Employers With 10 or More Employees*. \$500. Tara Lewis, William M. Mercer Inc., 1166 Avenue of the Americas, 28<sup>th</sup> Floor, New York, NY 10036, (212) 345-2451.

### **Savings**

Warneryd, Karl-Erik. *The Psychology of Saving: A Study on Economic Psychology*. \$100. Edward Elgar Publishing, P.O. Box 575, Williston, VT 05495, Attn: Holly Piper, fax: (802) 864-7626.

### **Social Security**

Iyer, Subramaniam. *Actuarial Mathematics of Social Security*

*Pensions*. \$39.95. ILO Publications Center, P.O. Box 753, Waldorf, MD 20604-0753, (301) 638-3152.

### **Documents Available on the Internet**

1999 Nelson's Pension Fund Consultant Survey

[www.nelnet.com/pfc99.pdf](http://www.nelnet.com/pfc99.pdf)

2000 Ask A Working Woman Survey

[www.aflcio.org/women/survey1.htm](http://www.aflcio.org/women/survey1.htm)

ERISA Preemption Primer

[www.ac.org/httpdocs/200Primer.pdf](http://www.ac.org/httpdocs/200Primer.pdf)

The Forbes 500s: Benefits and Recruitment

[www.forbes.com/tool/toolbox/forbes500s/benefits/](http://www.forbes.com/tool/toolbox/forbes500s/benefits/)

Guide to the Top 20 401(k) Funds

[www.money.com/money/magazine/top20/index.html](http://www.money.com/money/magazine/top20/index.html)

Health Insurance Costs and Early Retirement Decisions

[www.urban.org/health/insure\\_retire.html](http://www.urban.org/health/insure_retire.html)

How Much Should Americans Be Saving for Retirement?

[www.clev.frb.org/Research/workpaper/2000/Wp0002.pdf](http://www.clev.frb.org/Research/workpaper/2000/Wp0002.pdf)

In Brief - 1999 Form 5500

[www.efast.dol.gov/formspubs/InBrief5500.pdf](http://www.efast.dol.gov/formspubs/InBrief5500.pdf)

Long-Term Care Insurance In 1997-1998

[membership.hiaa.org/pdfs/LTC9798.pdf](http://membership.hiaa.org/pdfs/LTC9798.pdf)

Networking for Better Care: Health Care in the Information Age

[www.benton.org/Library/health/PensionBenefitGuarantyCorporation1999AnnualReport](http://www.benton.org/Library/health/PensionBenefitGuarantyCorporation1999AnnualReport)

[www.pbgc.gov/99annrpt.pdf](http://www.pbgc.gov/99annrpt.pdf)

Prescription Drug Coverage, Spend-

ing, Utilization, and Prices  
[aspe.hhs.gov/health/reports/drugstudy/](http://aspe.hhs.gov/health/reports/drugstudy/)

Productivity Gains Could Ease Baby Boom Retirement Crunch

[www.actuary.org/enrolrep.htm#gain](http://www.actuary.org/enrolrep.htm#gain)

The Social Security Retirement Planner

[www.ssa.gov/retire/](http://www.ssa.gov/retire/)

Status of the Social Security and Medicare Programs

[www.ssa.gov/OACT/TRSUM/trsummary.html](http://www.ssa.gov/OACT/TRSUM/trsummary.html)

### **Federal Legislation Overview Sites**

Association of Private Pension and Welfare Plans Legislative Information

[www.appwp.org/legislative.htm](http://www.appwp.org/legislative.htm)

The ERISA Industry Committee

[www.eric.org/](http://www.eric.org/)

Hewitt Associates:

Federal Legislative and Regulatory Year in Review: 1999

[was.hewitt.com:80/hewitt/resource/articles/reprt067.htm](http://was.hewitt.com:80/hewitt/resource/articles/reprt067.htm)

Federal Legislative and Regulatory Outlook for 2000

[was.hewitt.com:80/hewitt/resource/articles/reprt068.htm](http://was.hewitt.com:80/hewitt/resource/articles/reprt068.htm)

National Council on Teacher Retirement

[nctr.org/washington/washington\\_files/feblegsup.htm](http://nctr.org/washington/washington_files/feblegsup.htm)

Thomas: Legislative Information on the Internet

[thomas.loc.gov/](http://thomas.loc.gov/)

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