Joint Economic Committee Republicans
Tuesday, June 6, 1995

Economically Targeted Investments (ETIs)
The Solution: H.R. 1594 -- The Pension Protection Act

The Pension Grab

Pension funds have grown dramatically in size and importance to the U.S. economy, increasing from $1.5 trillion in 1983 to over $4.8 trillion by 1995. The success of pension funds, however, has attracted the attention of the Clinton Administration which is coveting this immense "honey pot" of pension fund wealth. Clinton's advisors have embarked on a behind the scenes, incremental strategy to circumvent the congressionally imposed restrictions on using pension funds to advance Clinton's political agenda.

The Clinton Strategy

Following the strategy laid out in Clinton's campaign documents, Clinton's advisors began promoting ETIs in 1993. After receiving resistance from the pension industry, the Department of Labor (DOL) issued in June of 1994 an "interpretation" of the fiduciary duty section of the Employee Retirement Income Security Act (ERISA) to "encourage" ETIs. This bulletin gave the green light to fund managers to consider ***both*** the interests of the beneficiaries and the secondary or collateral benefits to third parties when making investment decisions. Even worse, the DOL immediately began a hard-sell promotional effort by speaking across the country in favor of ETIs, and began spending over a million dollars on a "clearinghouse" which will determine the proper ETIs that a fund manager should make. Allowing the DOL, or any other government agency, to create a list of "economically correct" investments would put inappropriate pressure on investment managers and subject them to political pressures from various special interests.

Clinton's long term goal is to require private pension funds to invest 5 to 10% of their pension fund wealth to finance the Administration's political goals under the guise of targeted investments. This is part of a larger strategy to gain governmental control over private wealth in numerous private financial sectors, from banks to insurance to pensions.

The Law

Legally, the addition of a second goal fundamentally changes the nature of a fiduciary's duty to the beneficiaries under ERISA; and, economically, ETIs--by definition-- increase the risk and lower the overall return on pension plan investments.

Clinton's ETI plan betrays the trust that American workers and retirees place in the current ERISA system. The time-honored understanding of ERISA excluded consideration of collateral benefits to third parties, following the cherished Anglo-Saxon principle of common law duty of loyalty that a trustee owed to the beneficiary. ETIs abandon this single-purpose investment standard mandated by ERISA for a squishy, politically convenient dual-purpose standard. ETIs threaten the legitimate expectation that a beneficiary's pension funds will be managed solely for their own economic interest. Regrettably, the millions who have made contributions for ten, twenty or thirty years in the hope of a safe future, now have to worry about the long-promised return on their hard-earned investments.

Early Returns

Study after study on ETIs conclude that social investments experience higher levels of risk and lower rates of return compared with traditional, non-social investments. A 1994 University of Pennsylvania study by Olivia Mitchell determined that public pension funds which were required to make a certain portion of in-state investments generated lower investment returns. A 1983 study by Alicia Munnell found that public pension funds which targeted social investments had assets which were significantly riskier, less liquid, and earned lower yields.

Predictably, the biggest losers of ETI investments are the pension's beneficiaries. Examples of losses include: the 1993 Connecticut State Trust Fund's loss of $25 million through in-state investment in Colt Manufacturing, the Kansas Public Employees Retirement System projected loss of up to $236 million through various ETIs, and the Pennsylvania Public Employees' Retirement System's loss of $40 million in a Volkswagen automobile manufacturing plant investment. The results of such poor investing in the $3.5 trillion private pension market could well result in a catastrophic crisis, similar to the S&L failure that cost taxpayers over $150 billion.

The Solution

What is the solution? To stop the Clinton Administration pension grab, Congressman Jim Saxton has introduced **H.R. 1594, the Pension Protection Act of 1995 (PPA),** to prevent pension managers from investing in ETIs. The PPA would restore ERISA to its original meaning, requiring pension managers to invest plan funds solely and exclusively for the benefit of the plan's beneficiaries. The PPA would reverse the pro-ETI interpretive bulletin and abolish the ETI Clearinghouse.