an average 4-year car loan of $15,000, a 2-percent reduction in interest rates will save families $9,300 over the life of that loan.

I would just say that, overall, we are going to save dollars in our Republican balanced budget plan, and I would remind my home State of California that total Federal spending in the Republican balanced budget plan will increase, and I want to underline that, increase, a plus sign, from $177 billion in the fiscal year of 1995 to $215 billion in the year 2002, an increase of 22 percent.

Over the past 7 years, the Federal Government’s spending in California was $1.1 trillion. Under our plan, the total Federal spending in California will be $1.46 trillion, an increase of 31 percent. So while we hear a lot about cuts of this budget, what we are trying to do is slow that growth, the rate of growth down.

And describe Social Security payments to my senior citizens? In California we are going to see an increase of $15.9 billion over the next 7 years. Medicare payments to Californians will increase $9.2 billion over the next 7 years.

All of this is important to a State that has suffered, and we want to see California yet again become the Golden State. I am just looking forward in the next few weeks to discuss the balanced budget and to see that we do vote for a balanced budget in the next 7 years.

Why the need for a balanced budget?

Each year American taxpayers pay almost $300 billion just to service the debt we have already accumulated.

Without the Seven Year Balanced Budget Reconciliation Act, the share of the $1.2 trillion in additional new Federal debt placed directly on the backs of California’s children over the next 7 years will be $140 billion. Each child born in America today will be greeted with a tax bill for $187,000 just to service the debt over for their lifetime.

The national debt as of November 6, 1995, was $4,984,737,460,958.92.

EFFECTS OF SPENDING CUTS OF THE SEVEN YEAR BALANCED BUDGET RECONCILIATION ACT

Although the doom-sayers will have you believe otherwise with their false scare tactics, the Congress is not imposing draconian cuts; we are just curbing the amount of wasteful spending Congress has been in the habit of authorizing over the past 40 years.

Our Medicare Preservation Act saves Medicare, keeping our Government’s commitment to traditional Medicare. It increases the average per beneficiary spending from $4,800 in 1996 to $6,700 in 2002. The Preservation Act simply slows the rate of growth of Medicare.

Under the Republican balanced budget plan, total Federal spending in my home State of California will increase from $177 billion in fiscal year 1995 to $215 billion in 2002, an increase of 22 percent. Over the past 7 years, the Federal Government spending in California was $1.1 trillion. Under the Republican balanced budget plan, total Federal spending in California will be $1.46 trillion, an increase of 31 percent.

Breaking these costs down.

Social Security payments to Californians will increase $15.9 billion over the next 7 years. Federal welfare spending for food stamps, child care, cash welfare, child protection, school nutrition, and other such programs will increase $40 billion over the next 7 years.

Medicare payments to Californians will increase $9.2 billion over the next 7 years. Medicaid payments to California will increase $3.4 billion over the next 7 years.

LONG-TERM EFFECTS OF THE SEVEN YEAR BALANCED BUDGET RECONCILIATION ACT

The balanced budget legislation will put our financial house in order while, it is estimated, creating $1.1 trillion in new private sector jobs in California; in addition, it will reduce the taxes of California families by $32.8 billion over the next 7 years.

A 2-percent drop in interest rates means that an average 30-year home mortgage will save families in Santa Barbara County, CA, my southern constituents, $111,000 over the life of a home for $225,000, this home is the median price for a home in that county in 1995. In San Luis Obispo County where the median price of a home in 1995 and $163,000 would save nearly $100,000 from a 2-percent reduction in mortgage rates.

On an average 10-year student loan of $11,000, a 2-percent reduction in interest rates means graduates will save $2,160 over the life of the loan.

On an average 4-year car loan of $15,000, a 2-percent reduction in interest rates will save families $900 over the life of the loan.

Lastly, I would like to elaborate on Chairman of the Federal Reserve, Alan Greenspan’s plans on the GOP goal of balancing the budget by 2001.

In a speech earlier this month to the Cord Coalition, Greenspan said he believes that “progress this year in coming to grips with the budget deficit has been truly extraordinary.” He attributes falling long-term interest rates with this recent progress.

In addition, Chairman Greenspan stated that “Unless the budget deficit is brought down before a severe economic expansion begins, businesses’ ability to finance increasing investment will be impaired, economic growth will slow, and pressure on monetary policy to inflate could re-emerge.”

With such rosy predictions of the economic effects of our plan, I ask the doom-sayers what are the true draconian effects of our plan to balance our budget over the next 7 years? Are your concerns legitimate or are they simply false scare tactics motivated by envy for not having your own legitimate plan? I tend to believe the latter.

In summary, the Seven Year Balanced Budget Reconciliation Act incorporates the most dramatic changes in Washington in more than 40 years. It balances the budget in 7 years, provides significant tax relief to American families, preserves, protects, and strengthens Medicare and replaces the current welfare bureaucracy with compassionate solutions that restore the dignity of work and strengthen families. This legislation provides a better future for our Nation’s children. Thank you, Mr. Speaker.


I could go on and on but I think I have made my point. Congress should protect pension plans. The Senate has heard this message. The Senate voted overwhelmingly by a vote of 94 to 5 to delete their more restrictive corporate reversion provisions.

Mr. Speaker, why has the House not yet heard this message? The headlines have made it clear. This provision is an unconscionable provision.

Why is this provision needed? The House budget provides a huge tax cut to the wealthy and tax benefit to corporations at the expense of the middle class.

Our No. 1 economic problem is our national savings rate. We have to encourage individuals to save for retirement. This provision does the opposite.

One of the main reasons for the Republican tax reform proposals is to increase the national savings rate. Our decline in savings can be attributed to declining private-sector contributions to employee pension plans. The provision in the budget is contradictory. This provision will allow corporations to immediately suck money out of pension funds.

The proponents of this provision argue this provision will free up money and put it to work for job creation. An analysis done by the General Accounting Office (GAO) shows that most pension money is invested such as stocks and bonds that yield a financial return and provide pension money is invested such as stocks and bonds that yield a financial return and provide.

Plan fiduciaries are required by law to invest plan assets for the exclusive benefit of participants and to seek the highest rate of return for a given level of risk. The provision in budget regulation has no such safeguard.

I served on the Banking Committee during the S&L crisis and this is the ghost of the S&L crisis. We cannot afford to put the Pension Benefit Guaranty Corporation [PBGC] at risk. We cannot afford a taxpayer bailout of the PBGC.

I cannot think of one logical reason to include this provision in reconciliation. We cannot have a provision that is bad retirement policy. This provision does not belong in budget reconciliation. We have to protect the pensions of hard working Americans. We cannot let corporations siphon pension funds.

I have with me several editorials, letters to the editor and a financial journal about the corporate pension reversion which I will place in the Record.

The information referred to is as follows:

[From the Arizona Republic, Nov. 1, 1995]

PROPOSAL BENEFITS IRS, WALL STREET, NOT PENSION PLANS

No better time than right now for pension-dependent retirees to contact Senators McCain and Kyl and House Budget Committee members. A measure that would permit employers to withdraw "excess" assets from pension plans.

The measure is prompted by the taxes that will be due on the money withdrawn from pension plans by employers encouraged to do so by the prospect of plump after-tax windfalls to strew the tax sheets of their beneficiaries. This revenue-raising idea starts with today's high-flying financial markets: Plan asset valuations are looking fatter than assets needed to meet retirement obligations. This, however, assumes that the stock market will continue to fly high. Returning today's paper-value cushion to employers transfers the risk of tomorrow's market-value loss to pensioners.

Bottom-line-driven corporate managers will be hard-pressed not to regard an immediate balance-sheet windfall as more important than a potential pension shortfall. It is naive to think that these decision makers, pressured by the demands and expectations of Wall Street's short- legged windfall, will defer to the best interests of a constituency of powerless retirees, when management can order up from its CFOs conveniently rosy, after-tax predictions to justify its actions.

Dependent as I am on my pension, I am loath to entertain this high-flying market crashing and burning just so my former employer can enjoy that one-shot balance-sheet windfall.

The (transitory) budget benefits gained through taxation of pension-asset drawdowns is an incipient threat to the financially weak Pension Benefit Guaranty Corporation, a federal insurance fund that protects pensioners from plan failures.

This ill-advised House measure--as sighted as all the past careless measures that have placed the Medicare and Social Security trust funds in jeopardy today--awaits Senate approval. Now is the time to write--

Arnold E. Buchman, Scottsdale.

[From the New York Times, Oct. 19, 1995]

DON'T LET COMPANIES SKIM PENSION FUNDS

To the Editor:

"A Hard-Hearted Tax Bill!" (editorial, Oct. 12) neglects to mention one provision of the Republican tax bill that needs to be eliminated or modified: the proposal that makes it easier for corporations to raid "excess" assets out of employee pension plans, with little or no penalty, and to use those funds for nonpension purposes.

The Joint Committee on Taxation has estimated that the proposal would cause $40 billion of assets to be taken out of plans over the next seven years. This measure would be disastrous for both taxpayers and retirees with private pensions.

Taxpayers would be at risk because a taxpayer insurance plan of unfunded pension plans would be more likely in an economic downturn. Retirees would be hurt because they would be less likely to receive cost-of-living increases in the future and because they would experience less security in their basic pensions.

The Pension Benefit Guaranty Corporation has indicated in a study the extent to which a plan that is overfunded can quickly become underfunded. A plan that is 125 percent funded could become underfunded with a 10 percent drop in the market, coupled with a 1 percent drop in interest rates.

Giving companies the right to extract $40 billion would not alleviate that situation... The main justification of House Republicans for this piece of corporate welfare is that it would raise an estimated $10 billion or more in corporate income tax revenues over seven years, thus helping to reduce the deficit. This is false economy, since it raises the possibility of another saving-grace loan association-type bailout and of retirees losing all or part of the pension they have earned.

This proposal should either eliminate the provision from the tax bill, or modify it to allow employees and retirees to share a portion of whatever "excess" assets a company chooses to take out of its plan.

be available for the young. This is what's really illogical. It will be just another reason unemployment and welfare rolls will rise.

Don't let that barn door be reopened. Protect your future by getting your congressmen to know how you feel.


[From the USA Today, Sept. 22, 1995]

TODAY'S DEBATE: PENSION PROTECTION—ATTACK ON TRIM DEFICIT PUTS PENSIONS IN DANGER

Is your company's pension plan solid? If so, it may soon be ripe for picking—by your boss.

A proposal moving toward passage in Congress would allow corporate raiders to siphon off funds to shore up business-financed pension funds. At risk—$80 billion in savings in those funds plus billions more in taxpayers' money because the funds are federally insured.

The technicalities of what House Republican tax-writers are doing sound safe enough. New rules would merely eliminate a 50% tax penalty on money withdrawn from pension accounts in excess of 125% of that needed to meet current liabilities.

Only the 125% cushion is bogus.

A study by the Pension Benefit Guarantee Corp. found that even such supposedly healthily overfunded pension plans can fall away in the face of market uncertainties. For example, a business bankruptcy, for example, a business bankruptcy, could pay less than 90% of promised retiree benefits.

On top of which, even the surplus can quickly disappear if stocks go south or interest rates decline.

That's what's happened to a lot of pension plans that companies raided for their surplus money earlier. For example, ASI Holdings, which took $120 million from a supposedly overfunded plan in 1988, is now $86 million underfunded. Enron Corp. took out $232 million from a supposedly underfunded plan in 1995. Perhaps the limits on individual retirement accounts are too tight?

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So, why are Republicans racing to take this government's handout of a year's growth in corporate pensions? It will put $10.5 billion in subsidies and breaks for Big Business. That's what's happened to a lot of pension plans that companies raided for their surplus money earlier. For example, ASI Holdings, which took $120 million from a supposedly overfunded plan in 1988, is now $86 million underfunded. Enron Corp. took out $232 million from a supposedly underfunded plan in 1995. Perhaps the limits on individual retirement accounts are too tight?

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Companies can take money out of their plans to cover retirees’ health care pre-
miums. But this provision has little value unless a company has many retirees. Dy-
namically growing firms like Teledyne do not.

Concern about the plight of takeover tar-
gets should not move Congress to let these companies raid their pension funds at will. The current system puts employees and retirees at great risk. Companies that raid their pension system become larger—and his benefits in-
crease faster—the longer he stays on the job. So it doesn’t follow that a pension plan has a healthy future just because it has a surplus today.

The sensible approach is to require plans to maintain a precautionary surplus. With-
out such a requirement, in times of recession and rising costs, a plan is just a long-term Ponzi scheme like Social Security. And that’s very risky for taxpayers, who stand behind failing pension funds.

Last year, Congress and the Clinton Ad-
ministration ducked the fundamental issue of how to provide workers with secure pen-
sions while protecting taxpayers. They raised taxes on weak pension plans and passed slightly stricter financing require-
ments. But these measures were hopelessly inadequate. For one thing, companies with weak plans, they strengthened the urge to merge that puts companies like Teledyne under pension plagiarism.

That is why Representative Archer is pro-
posing to allow companies to take extra pen-
sion money for any corporate purpose. In his favor, he says, is that the bill does not do the job of detecting which companies are strong enough to keep their pension promises. But his legislation is unsound. No law should let companies tap money without recognizing the long-term financial costs. There is a better way. Workers and tax-
payers could be protected by requiring compa-
nies to post pension benefits with a guarantee from triple-A rated insurance companies. This would keep companies like WHX from ending up with weak plans. If the creditworthiness of the pension plan and the company was so weak that private insurance couldn’t be obtained, benefits would be fro-
zenned. Companies in such sorry shape have no business making false promises to their workers.

President Clinton has vowed to veto the budget package, and the veto would likely be sustained. Companies would use the uncer-
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out such a requirement, in times of recession and rising costs, a plan is just a long-term Ponzi scheme like Social Security. And that’s very risky for taxpayers, who stand behind failing pension funds.
funds, it's at least a thinly veiled sneak attack. The point is that both parties should keep their greedy hands off pension-fund assets. Employers are the major players, and they will grow enough to cover the payouts promised to retirees. By law, fund managers should be able to invest solely with investing to increase returns for the pensions. The money in a fund should be thought of as belonging to the participants.

House Republicans, however, decided to ease the rules so employers could withdraw "excess" money from pension funds—cash above future pension needs—and use it for anything. They said the companies would invest it in new plant and equipment and not jeopardize the funds because they still would be required to have a 25 percent cushion as insurance to meet future obligations.

Even with the cushion, Democrats contend the drawdown of assets will make some funds vulnerable to lower returns if the economy and stock market sour. Then, the administration argues, the government would have to come to the rescue of underfunded pensions, with taxpayers footing the bill.

Republicans would increase the odds for greater unfunded pension liabilities and for some companies, why? Because they move would divert up to $40 billion from the pension system, companies would have to pay income tax on the money, raising nearly $1 billion.

It's a terrible gamble at the wrong time. Many pension funds already are underfunded. Workers aren't saving adequately for retirement and, early in the next century, Social Security will face serious financial woes. Republicans and Democrats alike should keep their hands out of the pension fund cookie jar.

[From the Chicago Tribune, Sept. 25, 1995]

KEEP PAWS OFF PENSION FUND ASSETS
(Bill Barnhart)

Have you noticed? Squirrels are especially busy gathering nuts as fall begins this year. That means a harsh winter lies ahead, according to some nature lovers.

Well-heeled financial backers of the current Republican majority in Congress—perhaps sensing that the good days won't last much longer—aren't shying away from anything to get as fast as they can get it. Under cover of the high-profile debates about budget deficits, welfare reform, and Medicare, they are stuffing their cheeks with smaller morsels that don't get much media attention.

A few weeks ago legislation emerged to weaken the nation's securities laws that protect small investors in favor of the interests of the "entrepreneur." (This Republican Congress may be remembered best for giving entrepreneurship a bad name.) The latest is a proposed raid on corporate pension funds, which represent the storehouse of retirement savings for millions of Americans and millions of retirement funds, hoping and employees gather retirement nest eggs that will withstand the vagaries of financial markets, certain employers have decided they want control of what are called excess dollars in company pension plans.

Many employees these days aren't being covered by pension plans at all, but are expected to sock it away themselves through such tax-advantaged programs as 401(k) plans and individual retirement accounts. A big worry is that they are saving enough. There is no provision in the rules for workers who have been fortunate enough to see their 401(k) or IRA portfolio value grow in the current bull market to declare excess funds and withdraw funds for a vacation without paying a tax penalty.

That's exactly what certain employers are doing. A bill recently passed out of the House Ways and Means Committee want to do with employee pension fund assets. Only three years ago, if pensions ran huge deficits, the government would use pension fund assets to pay for their failure. Now, the deficit can be so deep that there's overfunding in the 1960s, and it can happen again.

"We though we'd put an end to those things," said Martin Slade, executive director of the Pension Benefit Guaranty Corp., which has the unenviable task of making good when employers skip out on their employee pension obligations.

Employers play this measure say they want to use the locked-up capital to grow and create jobs. That may be. But companies such as Chrysler, with large unrestricted cash amounts on their balance sheet often become sitting ducks for hostile takeover artists. Unlocked pension fund assets on the balance sheet are as inviting as cash to a raider. Certainly, the employees would not get to vote on the use of their "excess" pension funds.

Slade's agency estimates that $30 billion to $40 billion in pension assets would be raided if the provision now under consideration passes. That's $30 billion to $40 billion less of an already shaky pension fund surplus. Meanwhile, the level of unfunded pension liabilities has been growing.

A law enacted in 1990, largely in response to the raids of the previous decade, bans employers from withdrawing the alleged excess employee pension funds, except under limited circumstances to pay retiree health care.

Some companies advocate a limited change in the law to permit them to tap a conservatively derived surplus in their employee pension funds to finance worker buyouts for active workers. That idea deserves consideration because it would benefit employees. But to turn any amount of pension fund assets into a company checking account for any purpose is dangerous public policy.

The ability and willingness of American workers to save adequately for their retirement is a major concern these days for individuals and the economy as a whole. Letting employers raid their employees' storehouse is no answer to the problem. The fat-cat squirrels should stick to their own nest. Dumb question: Why doesn't the dividend yield figure relate to the price of the stock, so that when the price per share changes so does the yield?

It does, but sometimes the change goes unreported in newspaper stock listings because of rounding. For example, a stock with a $2.40 per share annual dividend selling at $60 would have a reported dividend yield of 4.0 percent in the stock listings. If the stock price dropped to $59.125, the yield would rise to 4.05 percent, which still would be reported at 4.0 percent. If the stock price dropped to $59.00, the yield would be 4.06 percent, rounded up to 4.0 percent in the listings.

Recently, market commentators have noted that dividend increases have not kept up with stock price increases. To the extent that the reported dividend yields will be less frequent because the dividend represents a smaller part of the share price and the rounding problem becomes more pronounced.

[From the AARP Bulletin, November 1995]

PENSION FORECAST: NEW RAIDS COMING?
(By Robert Lewis)

A debate that everyone thought was settled five years ago has reemerged in pension asset wars—workers or employers—has suddenly reigned.

Touching off the controversy is a Republican plan in Congress to allow corporations to withdraw reserve assets from pension plans and use the funds for purposes other than employee welfare.

Under a provision included in a tax bill that recently passed the House Ways and Means Committee, employers could tap their assets just to pay for their own state's pension systems to the cushion of at least 25 percent over what is needed to pay current pension obligations.

Rep. Bill Archer, R-Texas, chairman of the Ways and Means Committee and author of the plan, said the "pension reversion" provision would be good for corporations, and also good for the overall economy.

"Employers will also avoid having excess money in their pension plans to put that money to use," he said in a prepared statement, "to create new jobs, opening opportunities to expand the economy." But critics see dangers for pension plans in the GOP proposal. They argue that a 25 percent cushion is not enough margin to prevent currently overfunded plans from becoming underfunded should their assets decline during economic downturns.

The Pension Benefit Guaranty Corp. (PBGC), the federal agency that insures pensions, calculates that a plan with a 25 percent cushion could become underfunded if the stock market dropped 10 percent or interest rates fell two percent a year.

"The [GOP] plan makes pensions vulnerable to stock market downturns," says Karen Ferguson, of the Pension Rights Center, a Washington advocacy group. "It could place pensions at risk should firms get into financial trouble."

Clinton administration officials attacked the proposal, charging that it would allow companies to siphon up to $40 billion from pension plans and threaten the retirement security of 13 million workers and 2 million retirees enrolled in some plans.

If the plan becomes law, Labor Secretary James William Clark told reporters, "we're going to see raids on pension assets that will make the train robberies during the days of Jesse James pale in comparison."

AARP officials also criticized the GOP plan, contending it would "bring back the large pension raids of the 1980's, when employers diverted some $20 billion of pension funds to other purposes. Much of the money was used to finance corporate takeovers and leveraged buyouts."

In 1990, the federal government sought to curb pension reversions by making employers subject to a 50 percent excise tax if they withdraw pension assets before the fund, or a 20 percent excise tax if they established a successor plan. Firms pay federal income taxes on top of that.

Archer's bill would repeal the excise tax for six months, then reduce it to 6.5 percent through 2000. Congressional analysts estimate companies, as a response to Archer's bill, would pull $40 billion from pension funds. If they did, that would generate $10 billion in tax revenue, experts figure, suggesting this may be the real reason for the Archer proposal.

But Labor Secretary Clark says such a gain may be illusory, since the federal government insures the nation's 58,000 conventional company pensions covering 41 million workers.

When plans fail the PBGC steps in and runs them, keeping pensions flowing to beneficiaries. Although the PBGC is financed by insurance premiums paid by corporate pension sponsors, any shortfalls conceivably could end up being paid by taxpayers.

At the heart of the controversy is a question of who owns the assets of pension funds.
The enormous budget-balancing bills that the House passed last year, which contain some corporate tax increases. Two in the House version of the bill are bad ideas and ought to be dropped in the conference that now begins.

One would make it easier for corporations to remove supposedly excess funds from their pension reserves and use the money for other purposes. Thought it would result in some increased tax payments, it is less a tax increase than a benefit that corporations actively sought—and that critics say would leave the affected pension funds in weakened condition.

The other would phase out a low-income housing tax credit meant to induce corporations setting up new housing in the cities to finance the extension of other corporate tax breaks. For the corporate sector as a whole, they're a wash, while in social terms they would leave the budget more lopsided, not less.

Speaking of supposedly excess pension funds, and not just those of the other side. But "corporate tax increases," the principal burdens of which would likely fall on retired workers and lower-income renters, prove nothing of the kind.

Current law imposes a prohibitive penalty in addition to the corporate income tax on withdrawal of supposedly excess amounts from pension funds unless the money is used to help pay retiree health benefits. The House bill would greatly reduce the penalty and effectively redefine the concept of excess while permitting withdrawals for any purpose an employer wished.

Interestingly, it would be withdrawn, and since the withdrawals would still be subject to tax, it's true that revenues would go up. But organized labor, the Clinton administration and such groups as the American Academy of Actuaries have warned that the soundness of a significant number of pension funds could well be threatened in the process. This note that the value of pension fund assets are volatile; they go up when the stock and other securities markets are strong but can just as easily turn down again. No penalty know exactly where to draw the danger line in a matter such as this, but it's easy to know on which side to err. The Senate last Friday wisely decided to err on the side of caution and knocked a similar pension provision out of its bill by a vote of 94 to 5.

The phase-out of the housing credit was never its best idea. The credit is employed by the few remaining devices for adding to the stock of low-income housing in the country. The subsidized housing programs on the spending bill, which starts this work by being cut back, if not shut down, even as the need for such housing continues to grow.

The credit is probably not the most efficient way of adding to the housing supply, and it's been a steady source of added supply at relatively modest cost, and it would seem to be perfect Republican program in that the housing would be provided mainly through private initiative.

The House bill would use the proceeds from both these corporate "tax increases" mainly to finance the extension of other corporate tax breaks. For the corporate sector as a whole, they're a wash, while in social terms they would leave the budget more lopsided, not less.

Concerning how important pensions are to workers and retirees, it's not clear that the rules ought to be changed at all. When a company's pension-fund investments have done extremely well, creating a real excess, the company gets the benefit of going years without putting more money into the plan. Or, the company can transfer some or all of the excess to a defined-benefit plan to pay for health-care benefits for retirees.

Even those who say the 50 percent tax should be lowered must admit that the House Republican plan goes way too far. It proposes only a 6.5 percent tax on withdrawals of supposedly excess pension funds, and for the first half of 1996, no penalty at all!

This is a gimmick to raise revenue—since corporations would pay income tax on the pension money they withdraw. But law-makers shouldn't be indulging in tax gimmicks at all, let alone one that could under-cut the safety of millions of workers and retirees.

The biggest flaw in the House plan is how it defines a pension plan with truly "excess" funds: A plan that holds more than 125 percent of its current liabilities—that is, the pension benefits employees have already earned.

But the PBGC says that threshold isn't nearly high enough. A recent report by a business group called the Committee for Economic Development, anticipating how baby boomers will burden the pension system, expresses similar concern.

The retirement security of American workers has been hammered in recent years by corporate downsizing, corporate raiders and the like. Now it's being shaken further by current, sensible reforms, such as Medicare, a new raid on pension funds makes no sense whatsoever.

[From the Philadelphia Inquirer, Oct. 3, 1995]
That would clear up the free-market argument. But it won't save the Republicans from themselves.

Days ago, they howled about protecting pensions at the throes of the Clinton administration. The Labor Department provides information on investments in things like hospitals and small businesses to pension managers; the managers set dividends to invest. The House abolished the program.

“Our message is simple,” Majority Leader Dick Armey (R-Texas) crowed. “Keep your paws off pension plans.”

It’s a good sound bite. But nothing more than that.

From the Pittsburgh Post-Gazette, Oct. 1, 1995

PENSION RAID—DON’T RAISE REVENUES BY THREATENING PENSION BENEFITS

In the 1980s, corporate pirates didn’t need a map to find the buried treasure—it was right there in the pension fund.

High interest rates and a galloping stock market had made many funds flush. Frequently a company with a very healthy pension became a takeover target—leverage buyouts were followed by termination of the pension fund and the use of the excess cash to pay off debt.

If workers’ welfare had been insulated from all the high-finance brinkmanship, perhaps it wouldn’t have been an issue. But often the plans were underfunded with lesser-vested pensions or, on occasion, no pensions at all.

Starting in 1986, Congress set up a system allowing corporations to draw down excess funds toerral their needs to meet their pensions’ liability. The proposal, which would allow companies to withdraw funds for any purpose, would increase federal revenue because companies must pay taxes on withdrawals.

Supporters of the change contend that a 125-percent cushion is adequate. But critics, including the federal Pension Benefit Guaranty Corp., warn that a seemingly comfortable cushion could vanish if the stock market tumbles, because many pension funds are heavily invested in the stock market.

Given the federal government’s potential liabilities in the wake of a market crash and an economic crisis, Congress should be wary indeed of loosening restrictions. Tough penalties on withdrawals were instituted precisely to avoid precisely what happened.

Another ill-advised House proposal would raise $23 billion by sharply reducing the earned income tax credit, which allows the working poor to receive credit from the government even if they don’t owe taxes. The Senate Finance Committee, meanwhile, is endorsing an even larger cut in the credit—$42 billion over seven years.

Lawmakers are hoping to limit the credit, which was expanded greatly in President Bill Clinton’s 1993 economic package, in several ways. Some lawmakers—led by Ways and Means Chairman Bill Archer—would allow corporations to remove $30 billion to $40 billion from pension funds over the next five years for other purposes. Republicans hope to capture about $9.5 billion of that in taxes put toward balancing the budget.

In the process, they may well put some pension funds at risk. As most are government guaranteed, taxpayers could be the losers in the end, along with affected workers and retirees.

Proponents claim that the 25 percent cushion above current liabilities that the measure provides is more than adequate to protect the country’s 11 million employees and 2 million retirees covered by private pension plans. In addition, they argue that if the surplus pension money was invested in plant and equipment it could mean more jobs and a stronger company.

According to Ways and Means Chairman Bill Archer, the proposal could actually make pension plans more attractive to businesses and encourage them to make larger contributions.

But as Labor Secretary Robert Reich noted, you couldn’t prove that by what happened in the 1980s. An analysis by the federal Pension Benefit Guaranty Corp. found that the underfunded status of 50 pension funds on an underfunded watchlist in May of 2005 would seem modest.

The agency further noted that funds currently considered significant could become underfunded under a modest shift in the market that reduced interest rates by one percent, combined with a 10 percent decline in the value of assets.

Even the pro-business Committee for Economic Development warned that the present full-funded standard of 150 percent of liabilities is insufficient to ensure the long-term viability of pension funds.

The 1980s corporate-takeover frenzy, fueled in part by raids on pension funds, took a heavy toll on this country in terms of quality companies that were destroyed, thousands of jobs that were lost, and the impact on the environment to pay off debts, pension-fund depletions and the loss of employee trust in employers.

It’s the kind of mind to think that the stage might be set to go through that again, and at twice the rate of the 1980s.
And on the subject of ideas in new tax bills, one of the worst is the plan to allow corporations to borrow money from their pension plans. The withdrawals would be taxed—an estimated $10.5 billion over seven years—but this is a bad idea for two reasons. First, Americans are worried about their retirement years. What can they count on? Letting corporations use supposedly “excess” pension funds for other purposes merely adds to the public’s unease about its old age.

Second, the federal Pension Benefit Guaranty Corp., which insures the federal insurance programs, like insured bank deposits, that are ignored until they cost the taxpayers billions of dollars—could have to rescue pension plans that become underfunded because of corporate withdrawals. We do not need another S&L-style bailout because someone got greedy and saw a way to get more revenue without raising taxes.

[From the Spartanburg (SC) Herald-Journal, Oct. 2, 1995]

LEAVE PENSION FUNDS ALONE—CONGRESS SHOULDN’T ENABLE COMPANIES TO ENDANGER RETIREES’ BENEFITS

Congress should back away from a plan to let companies spend “excess” funds in their pension programs.

The plan, which was approved by the House last week, is popular with businesses because it would allow companies to use funds that aren’t needed to meet pension obligations.

It is popular with Republicans in Congress because it is expected to generate $9.4 billion in new federal revenue.

But it’s likely to become unpopular with the rest of us if it ends up affecting our pensions, which it is likely to do.

A key question is: How much money in a pension fund is “excess?”

The proposed measure would apply to companies that have at least 25 percent more money in their pension funds than is needed to cover benefits already earned by their employees.

About 40 percent of the pension funds insured by the government fall into this category. Companies are expected to spend up to $40 billion of this money if the law is passed.

But 25 percent is not much of a safety margin when dealing with financial investments.

The Pension Benefit Guaranty Corp., the government agency that insures risk, requires more cushion than that when a company terminates a pension plan.

Most pension plan funds are used to build stocks, bonds and other investment vehicles. The growth of those investments has led to the excess funds in the pension plans.

But what happens if the stock market plunges? If the investments of a plan go sour? All of a sudden, a pension plan that had excess funds no longer has the funds it needs to meet its obligations.

Who pays the pensions for the retirees then?

Taxpayers, through the Pension Benefit Guaranty Corp.

Does it sound familiar? Think Savings and Loan.

Companies were allowed in the 1980s to use excess pension funds for business use. About $20 billion was taken out of pension funds then, according to the Guaranty Corp. The money was used to pay for leveraged buyouts and mergers.

Workers at many of those companies had their pensions replaced by plans with much lower benefits.

In response, Congress placed a 50 percent excise tax on money taken from pension plans. The current proposal would eliminate that tax.

DON’T SUPPORT PENSION RAIDS

Smoke and mirrors would be preferable to a proposal approved by the House Ways and Means Committee last month to let healthy companies withdraw from their workers’ pension funds.

The proposal is designed, primarily, to raise $5 billion in federal tax revenue at a time when the government is desperate for money. Giving companies access to large sums of money would also accommodate business expansion and help the economy just about any time.

The problem is it would subject workers’ pensions to unacceptable risk, which seems especially inappropriate at a time of such uncertainty for Social Security. And in the event of a few large defaults, it could pin the cost of a huge bailout by the federal Pension Benefit Guaranty Corp. on taxpayers. After the federal savings and loan debacle, that’s the last thing we need.

The Republicans’ plan is to let companies borrow from pension plans that have at least 125 percent of the money they are estimated to need to pay current employees’ pensions. While such loans are now allowed, the government charges penalties on them of 20 to 50 percent, and it taxes the money as ordinary income. Consequently, most companies choose not to use them.

Under the proposal passed by the Ways and Means Committee, the penalty would be eliminated until next July 1 and raised to only 6.5 percent thereafter.

This would undoubtedly encourage hundreds of healthy companies to raid their pension funds, providing a windfall for the government, which would continue to collect taxes on the money taken out. If everything goes according to plan, there wouldn’t be a problem. But if the economy stumbled and the stock market tumbled—most pension funds are heavily invested in it—look out below.

In an instant, pensions would be dangerous underfunded, a situation that, uncorrected, could require massive infusions of cash from the PBGC. Without them, pension obligations might not be met. And with them, they might, the government might have to turn to taxpayers—just as the Federal Deposit Insurance Corp. did when it had to bail out the S&Ls. A chilling thought.

Not surprisingly there is widespread opposition to the plan among labor unions and the American Association of Retired Persons. They have a point, and we will support them.

And on the subject of ideas in new tax bills, one of the worst is the plan to allow companies to pay for leveraged buyouts by raiding pension funds, leaving many underfunded as a result.

Among the opponents are three cabinet secretaries who are members of the Cabinet-level board overseeing the federal Pension Benefit Guaranty Corp. (PBGC), which insures pension plans and takes over those that fail.

They say the proposal would trigger withdrawals of up to $40 billion from pension plans in the next five years—twice that removed by companies during the corporate takeover frenzy of the 1980s.

The proposal, which would allow withdrawals from pension funds would be allowed at any time and for any purpose. Currently, withdrawals are allowed only for use in retirees’ health benefits. The proposal would require corporations making withdrawals to leave a cushion of 25 percent more than needed to meet current liabilities.

Allowing companies to dip into their pension funds would lead more of them to make large pension contributions for cushioning or, if they don’t already offer pensions, to do so.

Labor Secretary Robert Reich, one of the PBGC board members, said it didn’t happen that way in the 1980s. He said that at that time the money was often used to finance leveraged buyouts, sometimes leaving pension plans underfunded.

Luckily, participants in plans that are underfunded won’t be blind-sided. The Retirement Protection Act, approved last year, will offer some protection.

Beginning this year, the act requires companies with more than 100 employees in underfunded pension plans to report to the government if the plan is less than 90 percent funded. That means, for example, that an 80 percent-funded plan could pay only 80 percent of its promised benefits, if the plan failed. The new ruling will apply to companies with fewer than 100 participant plans beginning next year.

These notifications must provide information about the plan’s funding status and explain the maximum amount of benefits the PBGC would pay if the plan failed, said Robin Pennington, an assistant professor at the College for Financial Planning, a division of the National Endowment for Financial Education.

The maximum benefit the PBGC’s insurance fund now pays to a participant is $2,574 a month.

The total pension shortfall of plans governed by the PBGC is $71 billion. Some plans are under-insured by more than 40 percent, according to the PBGC, whose own insurance fund is under-funded.

If you receive a notice that your plan is under-funded, Pennington said these are some of the things to consider:

How much is the plan under-funded?

Find out how the benefits are being funded. Think about building a nest egg to cushion the losses.

[From the Joplin Globe, Oct. 5, 1995]

PROPOSAL WOULD ALLOW CORPORATIONS TO RAID PENSION FUNDS

It appears that little is immune from Congressional budgetary deliberations. If it can be cut or it will raise money, it seems to be fair game for Congress.

Now, pension funds are among the fair game.

The House Ways and Means Committee has approved a proposal to allow corporations to raid their pension plans, raising billions for the government through income taxes paid on the withdrawals.

Proponents say the measure would lead to greater retirement protection while raising $9.5 billion for the government. Corporations support the measure because they say withdrawals from pension funds can help workers if the money is used to expand and create more jobs.

Opponents say it would endanger the retirement security of millions of Americans, just like it did in the 1980s, when companies legally tapped pension plans, leaving many under-funded as a result.

Hidden in the congressional budget plan is a proposal that would make unprecedented abuse of employee pension funds possible.

Never at a loss for an analogy, Labor Secretary Robert Reich said “You’re going to see a repeat of the S&L game.”

“Analyze the train robberies during the days of Jesse James by comparison.”

[From the Burlington (IA) Hawk Eye, Oct. 1, 1995]

PENSIONS AT RISK

Congress: New budget plan would let companies raid funds.

Hidden in the congressional budget plan is a proposal that would make unprecedented abuse of employee pension funds possible.

Never at a loss for an analogy, Labor Secretary Robert Reich said “You’re going to see a repeat of the S&L game.”

“Analyze the train robberies during the days of Jesse James by comparison.”

[From the Fort Worth Star-Telegram, Sept. 22, 1995]
The provision would let companies withdraw funds from pension plans if their assets exceed 125 percent of the plan’s current liability.

Companies could use the money for any reason.

The provision actually encourages companies to withdraw money by abating the federal excise tax on withdrawals made before July 1, after that a 6.5 percent tax would apply.

Republicans gleefully predict that $40 billion could be withdrawn over the next five years. That would produce a windfall in taxes.

Their other argument is that companies could use the money to expand or create jobs, although the law does not require that. Companies could just as easily pay bonuses to top executives or finance the campaigns of friendly politicians.

A flurry of withdrawals would create a nightmare for pensioners—and taxpayers.

Since 1974, more than 2,000 pension plans have failed. They were bailed out by the Federal Pension Benefit Guaranty Corp.

The fund insures $66,000 pension plans and $33 million in other plans. It effectively obligates taxpayers to guarantee pensions when private businesses do not.

The obligation is substantial; last year report, 11.5 percent of pension funds were underfunded by $71 billion.

Reich argues soundly that pension plans whose principal is depleted today might not be able to meet their long-term obligations.

Lost in the debate is why companies should be allowed to raid pension funds at all. Or at least without any obligation to assure their solvency.

A compromise might allow companies to borrow, not simply appropriate pension funds. That would offer employers and taxpayers assurance that pensions will be there, while giving companies a low-cost and renewable source of money for expansion or other legitimate purposes.

But then reasonable solutions are not what Congress is necessarily searching for.

[From the Tribune, Meadville (PA), Sept. 17, 1995]

DON’T LET COMPANIES RAID PENSION PLANS—SURPLUSES MEAN FUTHER SECURITY FOR WORKERS

A House committee last week passed a new tax bill. It would allow corporations to spend surplus money in pension plans rather than preserve the funds for the health of the plans to ensure the future security of their work forces.

Companies with 25 percent more money in their pension plans than is needed to cover benefits would be able to use that money as they see fit. Actually, 70 percent of the $800 billion pension plans insured by the Pension Benefit Guaranty Corp. currently fit that description, according to congressional estimates.

Legislation is looking at the plans as a means to help raise revenue to reduce the deficit. If companies were to use the money, it would generate about $10 billion in tax revenue over the next seven years.

The irony is that many of the pension plans in question have developed surpluses because companies use them as a tax dodge. By dumping money into the pension plans, the corporations are able to reduce their tax liability. If Congress wants to generate more tax revenue, it should legislate against the misuse of pension funds.

It is likely given the experience of pension fund raids in the 1970s and 1980s, that new raids by companies would help fund the current rate toward big mergers, resulting in untold layoffs and lost jobs.

Some of the pension surpluses also reflect accounting maneuvers rather than actual assets, raising the prospect that nationwide pension raids would jeopardize the solvency of some plans.

That’s what the Pension Benefit Guaranty Corp. opposes the plan, which should be defeated or vetoed.

[Mr. PAYNE] is recognized for 5 minutes.

Mr. PAYNE of Virginia, Mr. Speaker, the Commonwealth of Virginia held an election yesterday, and the Republicans lost it. I think it is time to sit up and take notice at the results. Yesterday’s outcome says a lot about the direction of this country, our priorities here in Congress, and public attitudes about the Republican tax cut.

George Allen, who is our State’s Republican Governor, tried to make the election a referendum on his program of tax cuts. Under the Governor’s plan, which was proposed and debated during this year’s General Assembly session, deep tax cuts would be paid for by slashing spending for a host of vital public programs.

The Governor proposed $2.1 billion in long-term tax reductions, but only identified $400 million in spending cuts to pay for them. Future Governors would have been left to make the cuts that would have been necessitated by the Governor’s tax plan.

And when it comes to the $400 million in spending cuts Governor Allen did specify, here is what was in the Governor’s plan: $10.5 million designed to keep students from dropping out of school; $3.2 million designed to help low-income students finish high school; $1.3 million for child health clinics; $7.3 million for 4-H programs; More than $90 million total for education, including Virginia’s colleges and universities.

And on and on it goes. And when the Democratic Party, at the head of the Governor’s agenda, the Governor called obstructionist. He pledged an all out effort to defeat the Democrats at the polls. And that is exactly what he attempted to do.

Does this sound familiar? Deep tax cuts that are paid for by deep cuts in important programs?

This is exactly the course that this House is following right now in the Republican Budget Reconciliation Act.

The people of Virginia got a good look at the Allen plan, and despite the Governor’s tireless campaigning, they rejected his extreme program by a big margin.

They defied the odds and kept the Virginia General Assembly, in Democratic hands.

Under the leadership of the Democratic Party, in the General Assembly Virginia enjoys a balanced budget, a strong A bond rating, and the reputation as one of the best fiscally managed States in the country. We will yield to no State in our belief in fiscal conservatism. But our citizens know that a tax cut that will give them a few dollars more each month isn’t worth diminished colleges and universities, reductions in law enforcement, cuts in health care programs.

The message from yesterday is clear: people want responsible government, not a radical program that will gut programs that educate our children, protect our seniors, and help to make our communities strong. They also demand fiscal responsibility.

Having had the opportunity to personally campaign with many of our colleagues, I am more convinced than ever that the course we are pursuing here in Congress is wrong. A budget reconciliation act that cuts Medicare, Medicaid, and other domestic initiatives just to pay for a $5 billion tax cut sounds a lot like the Republicans’ program in Virginia. And we see how far it got them.

It’s a lesson that we ought to learn here in Washington.

NEW GOVERNOR OF KENTUCKY

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Kentucky [Mr. WARD] is recognized for 5 minutes.

Mr. WARD. Mr. Speaker, I do not think I will be using the entire 5 minutes this evening, but I wanted to stand up to congratulate the new Governor of Kentucky, Gov. Paul Patton. He has been Lieutenant Governor for 4 years. Prior to that he was county judge of Pike County deep in Appalachia where he really turned things around. He really made things run differently from the way they were run before. So we are very proud in Kentucky that at this time of political upheaval, at this time of uncertainty and a negative feeling about anyone who is in office, that the Democrats, even though we have been in office for 24 years in Kentucky, have had the opportunity to send a new Governor to the Governor’s mansion.

I mention this because we, in the last couple of weeks of the campaign, ended up talking about a number of national issues, issues which relate to what we are doing here. I think it is important to make note of the fact that these issues seemed to show us, the way the voters reacted to these issues, seemed to show us that the voters are very concerned about the changes that are being made here to the Medicare Program.

These changes to the Medicare Program really do seem to cut at the heart of the commitment that we have made...