

Meeting Number 106
The Advisory Committee of the
Pension Benefit Guaranty Corporation
Washington, D.C.
May 8, 1989

The following attended the meeting:

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| Advisory Committee: | Eugene B. Burroughs M. J. Mintz Richard M. Prosten |
| Not present: | Perry Joseph |
| Consultants to the Committee: | Murray P. Hayutin John F. Hotchkis Ralph J. Wood, Jr. |
| Representative of the Secretary of Labor: | Stephen Finan |
| Representative of the Secretary of the Treasury: | Patrick Garabedian |
| Representative of the Secretary of Commerce: | Jane W. Molloy |
| Guest Speaker: | Dallas Salisbury |
| PBGC: | Dr. Kathleen P. Utgoff, Executive Director Royal S. Dellinger, Dep. Exec. Dir. |
| Staff: | William DeHarde Carol Flowe Judith Bekelman Joel Greenblatt |

The Committee began its meeting at 1:15 p.m. In the absence of a Chairman designated by the President, Mr. Hayutin conducted the meeting.

1. Minutes of Previous Meeting

The Committee unanimously approved a motion by Mr. Prosten, seconded by Mr. Wood, to accept as written the draft minutes of Meeting Number 105, held on March 10, 1989.

2. Special Presentation

Mr. Salisbury, President of the Employee Benefit Research Institute, discussed recent developments among single-employer pension plans and prospects for defined benefit plans. He observed that smaller employers are leaving the defined benefit system primarily for tax reasons and not because of PBGC premium requirements; that privatization of the PBGC is no longer a viable option; that the PBGC should examine cash balance defined benefit plans, which are increasingly being used; that defined benefit plans are likely to return to favor over the next ten years because of increased workforce pressure; and that, in today's tax environment, there is little prospect of a National Retirement Income Policy either by the Congress or the Administration because an agreement between private industry and the government on a national policy is unlikely. He stated that the PBGC's fight against abuse of the pension insurance system is the strongest encouragement the PBGC can provide to employers to continue using defined benefit plans. He responded to questions from the members of the Committee on several other issues, including the possibility of redefining the "basic benefits" insured by the PBGC. He indicated that, when basic benefits were first defined, he felt the PBGC was being "far too generous," but the definition could not be changed now.

3. Executive Director's Report

Dr. Utgoff discussed her resignation and that of Mr. Dellinger, which are effective as of July 31, 1989. The Committee expressed its regrets at her departure. Dr. Utgoff also reported on the PBGC's recent publication of its FY 1988 Annual Report, which she noted was both better and less expensive than the previous year's Annual Report; on recent efforts to resolve the LTV case; and on the continuing popularity and use of the PBGC's booklet, "Your Pension."

4. Deputy Executive Director's Report

Mr. Dellinger reported on recent developments in the Eastern Airlines bankruptcy, in the airline industry, and in the Wheeling-Pittsburgh Steel bankruptcy reorganization.

5. Investment Subcommittee Report

Mr. Hotchkis reported on the performance of the PBGC's investment managers. He stated that the Investment Subcommittee had discussed international equities and recommended to staff that it invest in such equities through a "two-pronged approach": use of an index fund while interviewing prospective individual managers. He reiterated the subcommittee's recommendation that \$50 million be moved to active management from passive management in index funds by State Street Bank, in order to improve the agency's investment returns. Mr. Hotchkis noted that the PBGC's managed equity funds continued to outperform their baselines, providing extra value to the agency. He further reported that the subcommittee had considered but did not recommend investment in high-yield ("junk") bonds and that one investment manager had been terminated and its assets were being transferred to another manager.

6. Regulations Subcommittee Report

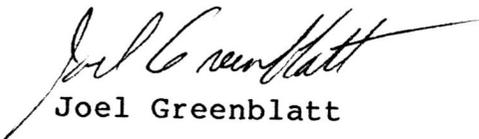
Mr. Mintz reported on the Regulations Subcommittee's most recent meeting and on the current status of regulations under development. He discussed with the Committee and Ms. Flowe the PBGC's current policy under which withdrawal liability is not to be assessed by fully funded multiemployer pension plans. Mr. Mintz stated that he and Mr. Prosten were troubled by this policy and that employers should be responsible for liabilities directly attributable to their own employees in cases where plans use the direct attribution method for assessing liabilities. Ms. Flowe explained that under a prior policy, if a plan's method of allocating benefit liabilities to contributing employers resulted in withdrawal liability, the liability could be assessed even if the plan was fully funded. She stated that this policy was changed partly to avoid discouraging new entrants to multiemployer plans. The Committee then unanimously approved a motion by Mr. Mintz, seconded by Mr. Prosten, affirming its position that the PBGC's earlier policy on withdrawal liability in fully funded multiemployer plans was the more correct policy and that the PBGC should continue to re-examine its current policy in light of a recent decision by the Eighth Circuit Court of Appeals.

7. **Future Meeting**

The Committee discussed the dates for its next meeting and agreed to meet next on Monday, July 17th, in Washington, D.C. Dr. Dan McGill, Chairman and Research Director of the Pension Research Council of the Wharton School, University of Pennsylvania, will be the guest speaker.

The Committee adjourned its meeting at 4:00 p.m.

Respectfully submitted,


Joel Greenblatt

Approved by the Advisory Committee on July 17, 1989.