Joint Economic Committee Republicans
Thursday, June 15, 1995

Economically Targeted Investments (ETIs)

The following is a brief overview of the issues discussed at today's briefing.

As Congress struggles to downsize government, President Clinton is working behind the scenes to expand government's reach and use private pensions to finance his liberal social agenda. In the investment world, this practice is known as "social investing." The Administration has dubbed these social projects "Economically Targeted Investments" or ETIs, but some prefer to call them PTIs or "Politically Targeted Investments."

Today, millions of hardworking Americans contribute significant sums of money to their pension plans. Each week they look at their pay-stub and see how much money they have contributed to their pension. These millions of hardworking Americans expect their contributions to be there when they retire. They expect the pension trustees to invest their money with prudence and loyalty.

The same is true with the millions of retirees who rely each week on a pension check to provide them food, clothing, and all the necessities of life.

Last month the Pension Plan Protection Act of 1995 (H.R. 1594) was introduced. Its primary function is to prevent the practice of ETIs. This bill has received unanimous support from the Republican leadership.

It is important to note that over $3.5 trillion are in private pension funds today. This is the amount of investment wealth that has been put at risk by the Clinton administration's advocacy of ETIs.

It is well documented that the administration has targeted private pension funds as a new way to finance their liberal social agenda.

Faced with an angry revolt of voters last November against too much Federal spending, President Clinton and his Department of Labor are trying to use private pensions to accomplish what they can no longer do through old fashioned tax-and-spend programs. These ambitious social planners now want to use private pensions to finance investments such as: Public housing, infrastructure, and pork-barrel projects.

It must be emphasized that targeting private pension fund investments is a radical and dangerous idea. ETIs violate the clear mandate of the Federal law that Congress passed to protect private pensions -- the Employee Retirement Income Security Act, commonly referred to as ERISA. ERISA requires that a pension fund manager must give complete and undivided loyalty to the pension beneficiaries.

ERISA clearly states: Pension fund managers must "discharge his duties with respect to a plan solely in the interest of their beneficiaries and for the exclusive purpose of (I) providing benefits to participants and their beneficiaries; and (II) defraying reasonable expenses of administering the plan." ERISA does not say "fiduciaries must make decisions primarily in the interests of and almost entirely to provide benefits to participants and beneficiaries." It says solely and exclusively! ***Exactly what parts of "solely" and "exclusively" doesn't the Clinton Labor Department understand?***

Besides ETIs obvious conflict with ERISA, the best economic research indicates that pension funds that target social investments produce below market returns.

Just one example will suffice. In 1990, Connecticut made a targeted investment in Colt Manufacturing, paying $25 million for 47% of the company. Colt went bankrupt in 1993, and the pensioners in Connecticut will never see that money again.

Even President Clinton, while Governor of Arkansas, convinced the Arkansas Teachers Retirement System to finance a mortgage for the Kappa Kappa Gamma Sorority House at the University of Arkansas. When the trustee was questioned about this unusual pension investment, he replied, "Why I know all the daddies of those girls, and there is no way they would have let that loan default."

The Clinton administration's ultimate objective is to establish an ETI quota for every private pension fund. This process is already happening in the states. What Secretary Reich would make permissible today, will become compulsory tomorrow.

The Pension Protection Act will protect the 42 million private pension participants from President Clinton's pension fund grab. H.R. 1594 will not alter the fiduciary duties laid out in ERISA. Instead, it will simply reiterate that the act means what is says -- no more, no less.

The security of our pension funds is no small issue. Every American who plans on retiring someday should be very concerned about what the Clinton Administration is up to. The $3.5 trillion dollars in private pension funds was earned by the hard work of millions of Americans. It belongs to them. It should be invested solely to benefit them, and pension managers should be loyal only to them.