A Pension Deficit Disorder

The Massive CEO Retirement Funds and Underfunded Worker Pensions at Firms Pushing Social Security Cuts



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Table of Contents

Key Findings	1
Overview	. 2
The Decline of Retirement Security.	. 4
Why Are CEOs So Interested in "Reforming" Social Security?	6
Fair Retirement Fund Reforms	. 8
Appendix 1: Appendix: Fix the Debt CEO retirement assets	. 9
Appendix 2: Methodology and Terms	11
Endnotes	13

Key Findings

ore than 90 CEOs of major U.S. corporations lead "Fix the Debt," a media and lobbying campaign pushing a national debt deal that would result in massive corporate tax cuts while cutting earned benefit programs like Social Security and Medicare. A recent Institute for Policy Studies <u>report</u> looked at how much these CEOs' firms stand to gain from their proposed corporate tax breaks. This report looks at the disparity between the CEOs' calls for cuts to programs for America's senior citizens while maintaining their own generous executive retirement programs.

CEOs of Fix the Debt member corporations enjoy massive retirement benefits

- The 71 Fix the Debt CEOs of public companies have average retirement assets of \$9.1 million. Of these 71 CEOs, 54 participate in their company's retirement programs and have collective pension assets of \$649 million, or more than \$12 million per CEO enough to generate a \$65,873 pension check each month for life. In contrast, the average monthly Social Security check for retired workers is \$1,237.
- A dozen of the Fix the Debt executives have more than \$20 million in their individual company retirement accounts. If each of these CEOs converted their assets to an annuity when they turned 65, they would receive a monthly check for at least \$110,000 for life.
- The Fix the Debt CEO with the largest pension fund is David Cote, Chairman and CEO of Honeywell. He has more than \$78 million squirreled away in his Honeywell retirement accounts, enough to provide him a \$428,000 check every month after he reaches the age of 65. Cote has been one of the loudest voices calling for "entitlement reform," a euphemistic term for cutting benefit programs for the poor and elderly.

Employees of Fix the Debt member corporations face shortfalls in their retirement funds

- Of the 71 publicly held Fix the Debt member companies, 41 provide employee pension funds for their workers. Of these, only two have sufficient assets in their pension funds to meet their expected obligations. The rest have underfunded their worker pension funds by \$103 billion, or about \$2.5 billion on average.
- The Fix the Debt member corporation with the largest deficit in its worker pension fund is General Electric, with \$22 billion. Honeywell, the firm with the largest CEO retirement fund, owes its worker pension funds \$2.8 billion.
- Although they have not remedied their own internal pension fund debts, the Fix the Debt CEOs say they have the solution for our national debt problems, which would include cuts to Social Security and Medicare.

Overview

here's a new CEO-led coalition in Washington. It's called Fix the Debt. Through an aggressive media campaign, they've projected an image of patriotism, promising to do what's necessary to return our economy to health and our country to greatness. Yet this attractive image is largely a Trojan horse for more corporate tax breaks and cuts to earned benefit programs like Social Security and Medicare.¹

In a <u>recent report</u>, the Institute for Policy Studies revealed that Fix the Debt companies would stand to gain as much as \$134 billion in windfalls from one of their main proposals — a "territorial tax system" that would permanently exempt their foreign earnings from U.S. federal income taxes. This report analyzes the disconnect between these CEOs' call for cuts to Social Security and their firm's own retirement policies.

As of November 18, 2012, more than 90 CEOs had signed up to lead the Fix the Debt campaign. Of these, we focused in on the 71 who lead publicly held corporations and thus are required to report executive compensation data. All 71 are men.²

Most of these CEOs preside over firms that have shifted responsibility for their employees' retirement security from the corporation to the employees themselves. And yet the vast majority of Fix the Debt CEOs have set themselves up with gilded retirement fortunes.

The 71 Fix the Debt CEOs of public companies have average retirement assets of \$9.1 million. Of these, 54 participate in their company's retirement programs and have collective pension assets of \$649 million, or more than \$12 million per CEO. If this amount were converted to an annuity at age 65, it would provide each CEO a monthly retirement check of more than \$65,873 a month. In contrast, the average monthly Social Security check for retired workers is \$1,237.

The largest nest egg belongs to Honeywell CEO David Cote, a long-time advocate of entitlement reform. He has \$78 million squirreled away in his Honeywell retirement accounts. If Cote transferred these funds to an annuity at age 65, he would receive a \$428,000 check every month.

While funneling huge sums into their CEO retirement accounts, Fix the Debt member corporations have fallen further behind in funding their workers' pensions. The 71 publicly held firms have a combined deficit of more than \$100 billion in their employee pension funds.

Their internal debts represent a broader trend. Last year, S&P 500 companies (roughly the 500 largest companies in America) owed their pension funds \$512 billion, the biggest pension gap since the end of World War II. These firms' pensions had just 72 percent of the pension assets necessary to meet the retirement benefits they have promised their workers. This means that employees face great uncertainty about whether the pension benefits promised to them will actually be paid. This is especially true for firms that wind up in bankruptcy. Current federal law requires that these pension deficits be reduced through increased corporate funding, but many CEOs are responding to this requirement by pressuring workers into accepting reduced pension benefits.

Fix the Debt CEOs With More Than \$20 Million in Their Retirement Accounts

CEO	Company	Total CEO retirement assets	Estimated CEO monthly pension	Employee pension fund deficit
David Cote	Honeywell	\$78,084,717	\$428,092	\$2,764,000,000 ³
Jeffrey Immelt	General Electric	\$53,301,387	\$292,220	\$21,756,000,000 ⁴
Randall Stephenson	AT&T	\$47,001,565	\$257,681	\$10,203,000,000 ⁵
W. James McNerney	Boeing	\$39,089,893	\$214,306	\$16,598,000,000
Michael Ward	CSX	\$32,292,517	\$177,040	\$818,000,000 ⁶
Steven Roth	Vornado Realty Trust	\$26,636,463	\$146,032	NA ⁷
John McGlade	Air Products & Chemicals	\$24,513,351	\$134,392	\$762,000,000 ⁸
Andrew Liveris	Dow Chemical	\$23,726,536	\$130,078	\$7,010,000,000
Wendell Weeks	Corning	\$21,229,195	\$116,387	\$454,000,000
Alexander Cutler	Eaton	\$21,055,632	\$115,435	\$1,235,000,000 ⁹
James Tisch (CEO)	Loews	\$21,028,506	\$115,287	\$958,000,000 ¹⁰
Andrew Tisch (Co- chair of the board)	Loews	\$20,677,631	\$113,363	

Source: Monthly pension derived from www.immediateannuities.com annuity calculator, using total retirement assets, and assuming payments would start at age 65. Based on rates available in New York and assume payments to one individual with no benefits for spouse. For details on methodology and the full list of publicly held Fix the Debt members and their retirement benefits, see Appendices.

In some cases, the Fix the Debt member corporations could eliminate their pension fund deficits with cash they currently have on hand. GE, for example, has more than \$85 billion in liquid assets, according to their most recent 10-K report — enough to easily wipe out their \$22 billion pension deficit. But rather than fixing their own internal debts, these CEOs have embarked on an aggressive effort to persuade policymakers and the public that savings from Social Security, Medicare, and Medicaid are essential to addressing the country's financial challenges. While these CEOs have offered few details on how they would cut costs with these reforms, it would likely be by limiting access to these programs paid for by all working Americans and by yet again raising the retirement age.

Three Fix the Debt Companies With More Than \$10 Billion in Underfunded Pension Liabilities

CEO Jeffrey Immelt	Company General Electric	Total CEO retirement asset \$53,301,387	Employee pension fund deficit \$21,756,000,000	Corporation's cash on hand \$85,461,000,000
W. James McNerney, Jr.	Boeing	\$39,089,893	\$16,598,000,000	\$6,582,000,000
Randall Stephenson	AT&T	\$47,001,565	\$10,203,000,000	\$2,217,000,000

Source: Company proxy statements and 10-K reports.

The Decline of Retirement Security

nce upon a time — 30 years ago — most Americans were covered by a retirement plan offered at work. The social contract represented by these traditional pensions was that after a career of service, a worker could depend on a regular monthly check from their employer to supplement their Social Security payments from the government. As recently as 1980, 83 percent of American private sector workers were covered by traditional pensions, known as "defined benefit" plans, because the company guaranteed the monthly benefit. These traditional pensions, supplemented by Social Security, helped provide millions of Americans a solid middle class retirement as a reward for decades of hard work.

All of that began to unravel during the 1980s. Faced with aging workforces and the prospect of diverting substantially larger shares of earnings to pension funding, AT&T and IBM led the charge to convert traditional pensions into what they called "cash balance plans." Under traditional pensions, companies set aside small amounts of money during the early years of a worker's career. As workers approached their retirement dates, the amount of funding in their pensions grew sharply. In an effort to reduce pension costs, AT&T and IBM switched their funding formulas to fund each year of a worker's career evenly. A worker just starting out would come out close to whole, but older workers took a big hit to their expected retirement savings.

Soaring stock prices in the 1990s, coupled with rules adopted in 1974 that required companies to set aside adequate funding for their pensions, resulted in most corporate pension plans generating enormous surpluses. Rather than recognizing these surpluses as a protection against the day when market prices would decline, or even using the strong years of corporate profits to make sure employee pensions were well protected for decades to come, corporate leaders began to complain that their pension assets were locked up, much in the same way they today complain about their vast foreign profits being trapped offshore. They became aggressive advocates for changing the rules to allow pension surpluses to be used for other corporate purposes, including funding mergers and paying employee severance benefits following large-scale layoffs.

In her book Retirement Heist, Ellen Schultz, a Wall Street Journal reporter, documents some of the ways pension surpluses were deployed by corporations whose current CEOs are leaders of Fix the Debt:

But despite the rules protecting pension funds, U.S. companies siphoned billions of assets from their pension plans. Many, like Verizon, used the assets to finance downsizings, offering departing employees additional pension payouts in lieu of cash severance. Others, like GE, sold pension surpluses in restructuring deals, indirectly converting pension assets into cash.¹¹

General Electric made no contributions to its employee pension fund between 1987 and 2010, according to Schultz. This decision, coupled with GE's success at drawing funds out of its pension plan in order to boost its earnings and the steep loss of stock market value starting in 2009, resulted in GE's \$24 billion pension fund surplus in the 1980s becoming a \$22 billion deficit today — the largest in corporate America. After 24 years of making no payments, GE has been forced to again begin making payments to its pension fund. GE responded to this new

reality by closing its pension fund to new participants last year, shifting new hires to a cheaper 401(k) plan. Asked to explain the rationale for closing the pension plan, a GE representative told *Forbes* "It's a drag on our earnings – 13 cents [per share] a year estimated for 2011."

Though the gap in corporate pension funding is the largest since World War II, Congress acquiesced to enormous pressure from corporate lobbyists and approved measures allowing companies to adopt inflated measures of expected investment returns, in order to reduce their pension liabilities on paper and keep their pension liabilities from growing further. This deal was a part of the compromise over last summer's passage of a bill to keep student loan interest rates from rising.

In order to determine how much money they owe their pensions, companies make assumptions about expected investment returns on their pension portfolios. Up until this year accounting rules required that companies base their estimates on actual bond yields in the last two years. In reaching the student loan deal, Congress changed this rule to instead allow firms to take the average bond yield over 15 years, which included the high rates enjoyed before the market bubble burst in 2009. This accounting ploy will allow companies to report lower pension funding gaps, without contributing additional money to shore up their pension funds. After President Obama signed the bill, <u>GE announced</u> it was reducing its expected pension contribution by \$2.5 billion this year and next.

SNAPSHOT: Americans' Bleak Retirement Picture

As corporate CEOs have feathered their retirement nests, a growing number of Americans have watched their nest eggs disappear, due to stock market losses during the recession or the need to tap retirement assets to pay bills following job loss or serious illness.

Percentage of private sector workers having traditional pension at work in 1980:	<u>83%</u>
Percentage of private sector workers having traditional pension at work in 2006:	<u>34%</u>
Percentage of private sector workers having traditional pension at work in 2011:	<u>15%</u>
Percentage of current full-time American workers in their 50s that have neither 401(k) nor traditional retirement plan at work:	<u>44%</u>
Percentage of Americans with no retirement assets of any kind:	<u>34%</u>
Percentage of Americans with no savings, retirement or otherwise:	<u>27%</u>
Estimated amount of retirement savings necessary (beyond Social Security) to provide \$25,000 in annual income during retirement years:	<u>\$500,000</u>

Why Are CEOs So Interested in "Reforming" Social Security?

"The solutions [to the fiscal cliff] are — it's the retirement age; means testing Social Security and Medicare; it's a whole host of things that are known; understood all parts of the Simpson-Bowles work. We just need to get leadership."

— Mark Bertolini, Aetna CEO and Fix the Debt member, speaking at <u>Wall Street</u> <u>Journal</u> event. Aetna has underfunded its employee pension, post-retirement health care, and life insurance accounts by more than \$1 billion.¹³

"We have to convince our lawmakers that they need to address overall spending levels including entitlements."

— Fix the Debt Campaign press release, September 18, 2012

"The retirement age has to be changed, maybe some of the benefits have to be affected, maybe some of the inflation adjustments have to be revised. But in general, entitlements have to be slowed down and contained."

 Goldman Sachs CEO and Fix the Debt member Lloyd Blankfein, <u>CBS News interview</u>, November 19, 2012

s more corporations have slashed employee pension and post-retirement health benefits, more retirees are facing an insecure retirement, wholly dependent on Social Security and Medicare. Why are so many CEOs determined to cut these wildly popular programs as part of their budget agenda?

In a recent <u>Washington Post</u> column, Ezra Klein argues that wealthy individuals may be pushing for increases in the retirement age to ward off reforms that would be more effective, but would hit them more directly:

"Social Security taxes don't apply to income over \$110,000. In 2011, [Goldman Sachs CEO and Fix the Debt supporter] Lloyd Blankfein's total compensation was \$16.1 million. That means he paid Social Security taxes on less than 1 percent of his compensation. If we lifted that cap, if we made all income subject to payroll taxes, the Congressional Budget Office estimates that it would do three times as much to solve Social Security's shortfall as raising the retirement age to 70. In fact, it would, in one fell swoop, close Social Security's solvency gap for the next 75 years."

Another possible reason CEOs are so eager to raise the Social Security retirement age is that it increases their leverage to try to raise the retirement age in their corporate pension accounts. Such a move, if successful, would allow them to defer paying promised benefits and save their underfunded pension plans tens of billions of dollars.

The nation's 100 largest companies are expected to have to make \$100 billion in contributions in 2012, up 67 percent from two years ago. Over the next four years these firms could spend upwards of \$400 billion to close their pension deficits, according to the Milliman consulting firm.

United States Already Leads the World in Retirement Age to Receive Normal National Pension

	Current		Future		When increase is set to take effect
Country	Men	Women	Men	Women	
United States	66	66	67	67	starting in 2027
Germany	65	65	67	67	starting in 2031
UK	65	60	66	66	starting in 2020
Canada	65	65	65	65	
Japan	60	60	65	65	starting in 2025
Brazil	65	60	65	60	
China	60	55	60	55	

Retirement U.S.A. At a Glance	
Percentage of current public sector workers covered by traditional pension:	<u>84</u>
Percentage of current private sector workers covered by traditional pension:	<u>20</u>
Percentage of public sector workers wholly dependent on their pensions because they are not eligible for Social Security:	<u>25</u>
Number of states that have reduced their public employee pensions since the start of the Great Recession in 2009:	<u>35</u>
Annual cap for ordinary workers tax-deductible contributions to 401(k) defined contribution plan:	<u>\$22,000</u>
Annual cap for CEO tax-deductible contributions to defined contribution plans:	No limits
Percentage of Fortune 100 firms operating such plans for CEO and other executives:	<u>79</u>
Percentage of Fortune 100 firms offering traditional pension for employees in 2012:	<u>11</u>
Percentage of Fortune 100 firms offering traditional pensions to employees in 1980:	<u>89</u>
Industry with the smallest percentage of workers eligible for traditional pensions:	retail (3%)

Fair Retirement Fund Reforms

f the CEO leaders of Fix the Debt are truly interested in fixing the debt, preserving Social Security for years to come, and ensuring a dignified retirement for all Americans, here are a few important initiatives they should get behind:

1. Eliminating the Cap on Wages Subject to Social Security Taxes

Presently just the first \$110,100 of an American worker's wage income is subject to a 10.4 percent Social Security tax. Honeywell CEO David Cote had the highest cash compensation among the Fix the Debt CEOs last year — \$25.1 million. Cote paid just \$11,107 in Social Security taxes last year. If the cap were lifted, Cote would have paid \$2.6 million in Social Security taxes. New legislation introduced by Senator Mark Begich (D-AK) proposes eliminating the cap on Social Security taxes for upper income earners like Cote. The Congressional Research Service analyzed a similar proposal in 2010 and found that it would eliminate 95 percent of the expected Social Security shortfall over the next 75 years.

2. End the Ability of CEOs and other high income employees to defer unlimited amounts of pay in their retirement plans

Average employees can set aside no more than \$22,000 tax-free each year in their 401(k) plans. Corporate executives face no such limits. Last year, Fix the Debt member Thomas Monahan, CEO of Corporate Executive Board Corporation, set aside \$1,360,491 tax-free in his company's executive deferred compensation program. If Monahan had been bound by the same rules as other workers, he would have paid an additional \$468,472 in federal income taxes in 2011. In the past, Congress has considered legislation to close this CEO-friendly loophole, but no legislation to address this is currently pending.

3. Support Universal, Secure and Adaptable (USA) Retirement Funds

Senator Tom Harkin (D-IA) has proposed a plan which recognizes the shared responsibility between employees, employers, and government to ensure that every worker enjoys a secure retirement. In order to provide this, Harkin's proposal would require employers currently not providing retirement benefits to contribute to a USA Retirement Fund on their workers' behalf. These funds would be pooled and professionally managed, ensuring that all workers have some pension assets to supplement their Social Security.

Appendix 1: Fix the Debt CEO retirement assets

CEO	COMPANY	Pension	Non-Qualified Deferred Compensation	Total CEO Retirement Assets
Evan Greenberg	ACE Limited	\$0	\$8,316,628	\$8,316,628
Mark Bertolini	Aetna	\$300,074	\$1,199,208	\$1,499,282
John McGlade	Air Products and Chemicals	\$22,800,562	\$1,712,789	\$24,513,351
Klaus Kleinfeld	Alcoa	\$3,732,855	\$460,551	\$4,193,406
Thomas Wilson	Allstate Corporation	\$6,053,912	\$453,863	\$6,507,775
Leon Black	Apollo Global Management	\$0	\$0	\$0
Randall Stephenson	AT&T	\$41,520,694	\$5,480,871	\$47,001,565
Brian Moynihan	Bank of America	\$6,807,876	\$2,116,059	\$8,923,935
Larry Fink	BlackRock	\$0	\$1,052,802	\$1,052,802
W. James McNerney, Jr.	Boeing	\$36,543,980	\$2,545,913	\$39,089,893
Richard Daly	Broadridge Financial Solutions	\$4,278,440	\$0	\$4,278,440
William McCracken	CA Technologies	\$0	\$4,131	\$4,131
Gary Loveman	Caesars Entertainment	\$0	\$50,445	\$50,445
Carl Russo	Calix	\$0	\$0	\$0
Douglas Oberhelman	Caterpillar	\$11,026,164	\$4,062,025	\$15,088,189
John Chambers	Cisco Systems	\$0	\$0	\$0
Kirk Hachigian	Cooper Industries plc	\$90,795	\$4,330,265	\$4,421,060
Wendell Weeks	Corning	\$18,672,934	\$2,556,261	\$21,229,195
Thomas L. Monahan, III	Corporate Executive Board Co.	\$0	\$3,237,806	\$3,237,806
Michael Ward	CSX	\$23,444,779	\$8,847,738	\$32,292,517
Samuel Allen	Deere & Co	\$6,634,990	\$5,107,541	\$11,742,531
Richard Anderson	Delta Air Lines	\$0	\$0	\$0
Michael White	DIRECTV	\$201,320	\$1,743,252	\$806,361
Andrew Liveris	Dow Chemical	\$21,983,284	\$1,743,252	\$23,726,536
Rolla Huff	EarthLink	\$0	\$0	\$0
Alexander Cutler	Eaton	\$20,224,384	\$831,248	\$21,055,632
Joe Payne	Eloqua	\$0	\$0	\$0
George Paz	Express Scripts	\$0	\$5,132,775	\$5,132,775
Ken Hicks	Foot Locker	\$0	\$1,925,000	\$1,925,000
Jeffrey Immelt	General Electric	\$47,971,207	\$5,330,180	\$53,301,387
Lloyd Blankfein	Goldman Sachs	\$30,002	\$11,848,837	\$11,878,839
David Cote	Honeywell	\$36,167,933	\$41,916,784	\$78,084,717
Michael McCallister	Humana	\$0	\$9,722,893	\$9,722,893
Martin Flanagan	Invesco	\$0	\$0	\$0
Robert Gasser	Investment Technology Group	\$0	\$0	\$0
Dave Barger	Jet Blue	\$0	\$0	\$0

			Non-Qualified Deferred	Total CEO Retirement
CEO	COMPANY	Pension	Compensation	Assets
Jamie Dimon	JPMorgan Chase	\$420,003	\$138,512	\$558,515
Thomas Joyce	Knight Capital Group	\$0	\$174,329	\$174,329
Reid Hoffman	LinkedIn	\$0	\$0	\$0
James Tisch	Loews Corp	\$21,028,506	\$0	\$21,028,506
Andrew Tisch (Co-chair of the board)	Loews Corp	\$20,677,631	\$0	\$20,677,631
Robert Wilmers	M&T Bank	\$2,367,024	\$376,545	\$2,743,569
Terry Lundgren	Macy's	\$16,717,939	\$0	\$16,717,939
Arne Sorenson	Marriott International	\$0	\$2,259,382	\$2,259,382
Brian Duperreault	Marsh & McLennan	\$880,528	\$224,063	\$1,104,591
Kenneth Frazier	Merck	\$8,649,569	\$5,779,335	\$14,428,904
Steve Ballmer	Microsoft	\$0	\$0	\$0
James Gorman	Morgan Stanley	\$62,511	\$18,943,518	\$19,006,029
Greg Brown	Motorola Solutions	\$0	\$0	\$0
Robert Greifeld	Nasdaq OMX Group	\$3,885,192	\$121,268	\$4,006,460
Duncan Niederauer	NYSE Euronext	\$0	\$429,407	\$429,407
Walter Rakowich (Co-CEO)	Prologis	\$0	\$0	\$0
Paul Jacobs	Qualcomm	\$0	\$12,684,146	\$12,684,146
Thomas Quinlan, III	R.R. Donnelley & Sons	\$477,792	\$229,613	\$707,405
Mel Karmazin	Sirius XM Radio	\$0	\$0	\$0
John Lundgren	Stanley Black & Decker	\$5,247,366	\$1,487,446	\$6,734,812
Frits can Paasschen	Starwood Hotels & Resorts	\$0	\$632,729	\$632,729
Brian Rogers	T. Rowe Price	\$0	\$0	\$0
Gregg Sherrill	Tenneco	\$752,026	\$1,093,424	\$1,845,450
Scott Donnelly	Textron	\$3,423,011	\$112,645	\$3,535,656
Marc Casper	Thermo Fisher Scientific	\$0	\$1,411,059	\$1,411,059
Glenn Britt	Time Warner Cable	\$507,890	\$91,767	\$599,657
Tom Rogers	TiVo	\$0	\$0	\$0
D. Scott Davis	United Parcel Service	\$6,605,700	\$809,318	\$7,415,018
Corporate Endorser ONLY	UnitedHealth Group	\$10,703,229	\$7,766,319	\$18,469,548
Doug Bergeron	VeriFone	\$0	\$0	\$0
Lowell McAdam	Verizon Communications	\$2,790,843	\$5,934,602	\$8,725,445
Steven Roth	Vornado Realty Trust	\$0	\$26,636,463	\$26,636,463
Daniel Fulton	Weyerhaeuser	\$7,662,164	\$1,397,533	\$9,059,697
Joseph Plumeri, II	Willis Group Holdings plc	\$625,000	\$7,516,126	\$8,141,126
Paul Stebbins	World Fuel Services	\$0	\$19,585	\$19,585
Total				\$648,830,149
Average - all 71 firms				\$9,138,453
Average - 54 firms in which CEOs participate in pension program				\$12,015,373

Appendix 2: Methodology and Terms

Methodology

All Fix the Debt member CEOs are current as of the campaign's web site on November 18, 2012.

CEO retirement assets: based on figures from company's most current proxy statement (SEC FORM DEF-14A) which can be found on the Securities and Exchange Commission's website at www.sec.gov. Tables listing present value of pension assets and non-qualified deferred compensation plans are found after the summary compensation table.

Estimated CEO monthly pension: derived from www.immediateannuities.com annuity calculator, using total retirement assets and assuming payments would start at age 65. Based on New York rates and assuming payments to one individual with no survival benefits for spouse.

Employee pension fund deficit: taken from the appropriate footnote in the company's most recent 10-K. This footnote can variously be labeled: Pension, Employee Benefit Plans, or Post-Retirement Benefits. Funding status is determined by subtracting plan assets from projected benefit obligation. We report only underfunding of U.S. pension plans and note underfunding of non-U.S. pensions and post-retirement health plans in endnotes. Form 10-Ks can be found on the Securities and Exchange Commission's website at www.sec.gov.

Honeywell CEO David Cote's taxable income: derived from salary, bonus and non-equity performance pay reported in Honeywell's 2012 proxy statement (SEC FORM DEF 14A).

Corporation's cash on hand: from the company's most recent quarterly report (as of November 18, 2012) filed with the SEC. Cash is listed on the balance sheet of the quarterly report (SEC FORM 10-Q).

Terms

Defined benefit plans: traditional plans that provide a retiree a fixed monthly retirement check based on the employees' earnings. Corporations bear the risk for assuring there are sufficient funds available to pay the promised monthly amount. If market declines reduce pension assets, it is the company's responsibility to provide adequate funding to pay promised monthly pensions.

Defined contribution plans: commonly known as 401(k) or 403(b) plans, these plans shift the risk to employees. Companies typically contribute a fixed percentage of the employee's annual salary to these plans, sometimes by matching employee contributions. Monthly income in retirement is not fixed and is based on investment returns. If markets do well, employees will have more retirement assets available to them, but if markets decline, money available to employees in their retirement will also shrink. Corporations bear no responsibility to make up assets lost due to stock market losses.

Ironically, today's 401(k) plans were originally intended as a tax perk for corporate executives. Passed by Congress in 1978 as an obscure provision in the tax code, 401(k) plans were adopted by several firms to allow executives to shelter part of their income from taxes. By the early 1980s, corporations discovered that the provision could be used to supplement pension benefits provided to workers. By the 1990s, the 401(k) became seen as a cheaper alternative to traditional pensions.

Annuities: An annuity is a contract with an insurance company that, like a traditional pension, pays a fixed monthly amount for life. Terms of individual annuity contracts vary, but for our purposes we assumed the CEO taking the value of their pension assets and purchasing an annuity contract at age 65, that would pay for the duration of the CEOs life. Other variations are possible, including ones that would cover a surviving spouse.

For more on the Fix the Debt campaign:

The CEO Campaign to 'Fix' the Debt: A Trojan Horse for Massive Corporate Tax Breaks, published by the Institute for Policy Studies, November 13, 2012

<u>Un-Shared Sacrifice: How 'Fix the Debt' Companies Buy Washington Influence & Rig the Game</u>, published by Public Campaign, November 19, 2012

For more on retirement fund trends:

Ellen Schultz, Retirement Heist: How Companies Plunder and Profit from the Nest Eggs of American Workers (Penguin Books, 2011).

Theresa Ghilarducci, When I'm Sixty-Four: The Plot Against Pensions and the Plan to Save Them (Princeton University Press, 2008).

Endnotes

4

³ Includes only US plan. Non-US plan is also underfunded.

⁴ Includes both funded and unfunded defined benefit plans.

⁸ Reflects underfunding of U.S. pension plan only. Non-U.S. pension is underfunded by \$181 million.

¹² ibid. p. 2.

¹ Fix the Debt campaigners often present their proposals through euphemisms, such as "strengthening Social Security" or "entitlement reform." In a number of statements, however, they have been more clear about their desire to cut so-called "entitlement" programs, which include Social Security, Medicare, and Medicaid. See, for example, this Fix the Debt <u>press release</u>, which calls for "reduced entitlement spending." and <u>this one</u>, which states "we have to convince our lawmakers that they need to address overall spending levels including entitlements." An extensive analysis of their corporate tax break proposals can be found in this <u>IPS report</u>.

² Two women are supporters of Fix the Debt, but neither heads a publicly traded company and therefore no pension data is available for either. Linda Stewart is the CEO of Interaction Associates, a private firm, and Kathy Wylde is the CEO of Partnership for New York City, a non-profit association that represents the interests of New York City-based CEOs.

⁵ Includes only pension underfunding. Post-retirement health care account is underfunded by an additional \$25 billion.

⁶ Includes pension assets only. Post-retirement health care accounts are also underfunded by \$388 million.

⁷ Vornado participates in a multi-employer pension plan for some of its workers. Because these assets are pooled by several companies, it is not possible to calculate any share of underfunding attributable to Vornado.

⁹ Reflects U.S. pension plan only. In addition, Eaton has underfunded its non-U.S. pension by \$516 million and other post-retirement benefit accounts (primarily related to health care) by \$697 million

Applies to pension account only. Loews has also underfunded its "other post-retirement benefits" account by \$36 million.

Schultz, Ellen, Retirement Heist: How Companies Plunder and Profit from the Nest Eggs of American Workers (Penguin Group, New York, 2011), p. 3.

Aetna has underfunded its employee pension fund by \$833.5 million and its Other Post-Retirement Benefits Account by \$248.5 million.