



Pension Benefit Guaranty Corporation
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Office of the Executive Director

October 11, 1995

Mr. Philip J. Bazelides
Vice President
Corporate Human Resources
P. O. Box 1188
Houston, Texas 77251-1188

Dear Mr. Bazelides:

Recently the Pension Benefit Guaranty Corporation was called upon to provide the PBGC Board of Directors and Members of Congress information on the impact of an amendment proposed by the House Committee on Ways and Means to broaden Section 420 of the Internal Revenue Code. The amendment would make it significantly easier for companies to take money out of defined benefit pension plans.

In response, the PBGC reviewed and reported on past instances of reversions involving pension plans that are now underfunded. The PBGC cited the Enron Corporation as a company that removed \$232 million in assets from its pension plan in 1986 and noted that the plan was most recently reported as being underfunded by \$83 million.

In your letter of October 2, you state that this does not accurately reflect Enron's actions concerning its retirement plan. While your letter raises several interesting points and provides considerable additional detail, the facts remain that: In 1986 the Enron Corporation terminated its previous pension plan, and took a reversion of \$232 million; and, in the most recent complete reporting of its financial condition, the Enron Corporation pension plan was underfunded by \$83 million.

Regarding the 1986 reversion, you note in your letter that ". . . the assets taken from the plan were rolled over into an Employee Stock Ownership Plan." This ESOP was set up in combination with a successor defined benefit plan in a "floor offset" arrangement. While the increase to date in the value of Enron stock held by the ESOP is good news for your employees and the federal pension insurance system, the establishment of a floor offset arrangement puts Enron employees and the PBGC at significant risk should the pension plan ever be terminated in a distress situation. Congress addressed the risks created by floor offset arrangements in the Omnibus Budget Reconciliation Act of 1987 by prohibiting the establishment of these floor offset arrangements for the future.

Your letter agrees with the PBGC's report that, as of December 31, 1993, the plan was underfunded by \$82.5 million. This is the most recent publicly available

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information on the unfunded termination liability of the plan. The PBGC has yet to analyze and release information with respect to 1994 funding levels for the plans of all companies.

Finally, you note that Enron is basing its plan funding decisions on ongoing plan assumptions that show the plan currently has unfunded vested benefit obligations of only \$11.6 million. This amount significantly understates the Enron plan's benefit liabilities were it to terminate for any reason. This is the very issue -- the difference between the "current liability" and the "termination liability" of pension plans -- that the PBGC focussed on in its report. For this reason, we do not use ongoing plan assumptions to estimate the risk plan underfunding poses to workers and the federal pension insurance system.

I trust this letter explains our views on this matter.

Sincerely,



William Posner
Deputy Executive Director
and Chief Operating Officer