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Private Equity Buyout Industry Gets Its Facts Wrong

With one week until July 17 global actions focused on KKR, industry trying to change the subject

WASHINGTON, D.C. – On July 17, in cities from New York to Tokyo to Paris, SEIU members will be joined by MoveOn.org and Avaaz, and activists from 25 countries to take aim at the special perks and tax loopholes that buyout firms like KKR (Kohlberg, Kravis, Roberts & Co.) depend on to make billions. Activists will hold demonstrations worldwide at KKR offices and KKR portfolio companies such as Toys “R” Us, and delegations of community leaders and workers will press their case with pension funds, legislators, and top KKR executives. For more information visit www.july17action.org

As anticipation grows for the actions of July 17, the buyout industry is doing what it always does: trying to change the subject. In a recent *New York Sun* opinion piece, the industry gets its facts wrong and illustrates why it needs to change its business practices. The piece was authored by a fellow at Hudson Institute, a right-wing group where Marie-Josée Kravis, the wife of Henry Kravis, KKR’s CEO and co-founder, sits on the board,

The SEIU pension statistics cited in the *New York Sun* opinion piece are wrong. As of January 1, 2008, SEIU’s national pension fund for rank and file members was 96% funded. In 2006, it was funded at 92%. The accurate funding level is calculated by using the funding measure required by the Pension Protection Act of 2006.

“One of the problems with big employers in America like KKR is they don’t like providing pensions anymore,” said John Adler, Private Equity Director of SEIU’s Capital Stewardship Program. *“Instead of criticizing unions that ensure a good retirement for workers, big employers like KKR should provide more workers with pensions.”*

The buyout industry for months has been using pension fund returns to justify business practices that undermine American workers. Unfortunately the industry’s claims obscure important facts about pensions and private equity:

- Industry’s claims of benefits to American workers are overblown. Only 2.5 % of the total assets of the top 200 defined benefit plans are in private equity buyout funds. Fewer than 20% of American workers have defined benefit pension plans, and only half of American workers have any kind of retirement plan at work today, other than Social Security.
- Buyout firms – which now are effectively 5 of the top 10 largest U.S. employers – make little effort to increase the number of workers who have pension plans.

KKR has offered no evidence it seeks to provide new pension benefits for the hundreds of thousands of Americans who work for the companies it owns.

- The value of buyout debt is falling, reflecting an increase in the risk of default, and potentially lowering pension returns. Earlier this year, KKR Private Equity Investors, a publicly traded affiliate of KKR, took writedowns on a number of its portfolio investments. Just this week, there were news reports that KKR-owned Masonite International, Inc. is in danger of defaulting on its bank debt.
- The “2 and 20” fee structure charged by buyout firms takes money out of the pockets of workers. Pension funds in which SEIU members participate are estimated to pay more than \$1 billion a year in management fees alone. And last year, Henry Kravis joked to his peers that, though KKR decided 20% was a fair fee to charge, “you could have gotten 25 percent.” (*New York Times*, 10/23/07)

About the July 17 Day of Action

SEIU is organizing a global day of action on July 17 focused on KKR and the buyout industry to protest unfair tax advantages and loopholes that deplete needed funds from federal and state treasuries and contribute to growing income inequality. SEIU is calling on KKR and the buyout industry to adopt corporate social responsibility principles that will result in increased public transparency, responsible employment practices, environmental and public health protection, respect for human rights, fair taxation, zero tolerance for corruption, and independent monitoring. For more information visit www.july17action.org.