ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

HEARINGS

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

(Pension Aspects)

TUESDAY, FEBRUARY 17, 1970

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The special committee met at 9:45 a.m., pursuant to call, in the Whittall Pavilion, Library of Congress, Senator Vance Hartke presiding.

Present: Senator Vance Hartke.

Committee staff members present: William E. Oriol, staff director; John Guy Miller, minority staff director; and Dorothy McCamman, consultant on the Economics of Aging.

Also present: James H. Schulz, Ph. D., associate professor of economics, University of New Hampshire and a visiting lecturer, Florence Heller, School for Advanced Science in Social Welfare, Brandeis University.

OPENING STATEMENT BY SENATOR VANCE HARTKE, PRESIDING

Senator HARTKE. This hearing comes at a time when all available hearing rooms in both Senate Office Buildings are in use by other committees. In addition, Senator Harrison Williams, chairman of the Committee on Aging, has been called out of town, even though he had intended to conduct this hearing.

In short, the Senate is exceptionally busy today, and we are improvising at these proceedings in order to make certain that those scheduled to testify will be heard. I hope you will bear with us. I, myself, am under rather heavy pressure. I have another scheduled meeting that I will have to attend, too.

I do want to comment briefly upon the study on the economics of aging.

It is critically important, in my view, that we in this Nation face up to the fact that older Americans live on inadequate retirement income. This is true not only of the 7 million persons of age 65 and over who live in poverty or near poverty. It is also true of those who may be well above poverty levels, who find that it becomes more difficult each year to pay property taxes, medical bills, and even today's food prices.

Perhaps many people are saying: Well, the elderly are about to receive a 15 percent social security increase, thanks to congressional action in December.

Doesn't that take care of the old folks?

Not to judge by mail received at my office and at the Committee on Aging Office. No; there is a great deal to do about social security reform, and there is a great deal to do in terms of improving private pensions, too.

For that reason I am glad that the committee is looking into the role that private pensions can play in establishing true economic security for the elderly.

I am sure that the testimony during the next 2 days will help the committee to evaluate that role more accurately as it works toward its final hearings and final report on the economics of aging.

I might say that I have introduced several times in the Senate and have introduced in this Congress again a bill to provide for insurance of pension plans. I had the unfortunate experience of witnessing a major plant shutdown of the Studebaker Corp. in South Bend, Ind., and seeing individuals who had worked up as much seniority as 25 years see all of their pension plans immediately wiped out for them at the ripe old age of 39.

These people also found themselves in a rather difficult situation. Those between the ages of 40 and 59, of course, were more fortunate; they received 10 percent of their pension plans. That gives a little demonstration of some of the problems.

I think also I would like to include the entire opening statement of Senator Williams as part of the record.

(The statement referred to follows:)

STATEMENT OF HON. HARRISON A. WILLIAMS, JR., CHAIRMAN, U.S. SENATE SPECIAL COMMITTEE ON AGING

Once again, the U.S. Senate Special Committee on Aging is meeting to take testimony on a specialized subject related to our major study for the year: "Economics of Aging: Toward a Full Share in Abundance."

Our witnesses during the next 2 days will deal with private pensions and the contribution they make—and can be expected to make in the future—to the economic security of the elderly.

That contribution is, by any measure, already substantial. In terms of dollars paid out each year or set aside in reserves, private pensions have major economic importance. In terms of people served, monthly pension checks now reach approximately three million aged persons every month. The total number of recipients has more than tripled since 1955, and pension reserves now amount to some 100 billion dollars.

There is good reason to praise all concerned for the major strides that have been made in so short a time.

There is good reason to congratulate those who are now working for even greater gains in the future.

But there is also cause for caution in appraising the part that pensions can play in guaranteeing present and future security.

Thanks to the excellent working paper prepared by Professor James Schulz for these hearings, we have evidence indicating that:

Private pension coverage is now concentrated among comparatively higher-paid workers. Those most in need of supplemental income in old age are least likely to have help from pensions.

Cost-of-living adjustment mechanisms, for the most part, do not help the worker when he becomes a retiree.

Looking to the future, only a third to two-fifths of all aged persons in 1980—just ten years from now—are expected to have income from private group pensions.

Dr. Schultz gives us many other facts and projections, all worthy of careful thought.

But, if there is one message I hope becomes clearer during the next 2 days, it is simply this:

That most Americans, including those who expect some day to enhance retirement income with pension checks, may have far too rosy a picture of what those pension benefits will actually mean in terms of their overall retirement security.

Such a misappraisal of the situation can have serious consequences for the elderly of the future, because it makes today's worker mistakenly complacent about the future, and it may stall action to deal with a retirement income crisis which affects every American in this Nation, no matter what his age.

Over the last 12 months, the Committee on Aging has tried to tell the Nation that this crisis does indeed exist.

We have listened to the evidence:

About high medical costs, that take greater and greater bites from fixed income, despite Medicare's essential coverage.

About the gap between retirement income and work income—a gap of almost 50 percent.

About the rising cost of living and the failure of social security to stay within range of a moderate budget needed for barebone existence.

About couples and widows who paid off mortgages years ago, only to find now that they may yet be evicted because they can't pay rising property taxes.

Given all these pressures, it is only natural that attention be directed at the present realities and future potential of private pensions. But we must ask ourselves: If our appraisal is based at least partially on myths—as Dr. Schulz says—don't we run serious risks of making major mistakes in formulating future policy on many issues related to income in old age?

With that question asked, we will now turn to our witnesses for their facts and their thoughts.

Senator HARTKE. I cannot pass this opportunity, the first time I have had a chance to conduct the hearings here in Washington since doing the work with the staff director, Mr. Bill Oriol, in the field and his people, to say it was some of the finest staff work I have ever seen.

I would like to say I was happy to have been on those field hearings but there was not much happiness in them in terms of the people, themselves. It was a pleasure to work with an excellent staff but it was a real disappointment to see the tragedy that is on the American scene for the rural poor, especially in America.

So, we will proceed.

This morning, our first witness will present a brief summary of the report of the pension aspects of the economics of aging: Present and future roles of private pensions. The complete committee print, "A working paper in conjunction with the overall study of 'Economics of Aging: Toward a Full Share in Abundance'", will be included in the appendix.[1]

Dr. Schulz.

STATEMENT OF JAMES SCHULZ, PH. D., ASSOCIATE PROFESSOR OF ECONOMICS, UNIVERSITY OF NEW HAMPSHIRE

Dr. SCHULZ. Thank you, Senator.

Senator Williams' request in September that I, as a member of the original task force on aging, prepare a paper on private pensions filled me with a great deal of trepidation. I did not then consider myself an expert in the highly complex and technical field of private pensions. Nor do I, having finished the paper, now consider myself such an expert.

What I have done is to provide the committee with a background paper which, first calls attention to the availability or lack of availability of various factual information; second, asks questions about the role of private pensions; and, finally, outlines basic problems in developing private pensions to better serve people in their old age.

The paper speaks for itself. However, there are two points which I would like to make with regard to its contents.

First, I was forced to neglect in the paper what I feel is a very important issue: The question of what happens to the value of employees' private pensions after they retire.

The common assumption is that private pension payments do not increase during the retirement period. Hence, inflation together with rising standards of living of the nonretired take their toll and reduce the economic status of the retired elderly.

The assumption that private pensions do not change in retirement is, however, not entirely valid. There are some private plans which do adjust benefits. In the case of plans with variable annuity provisions, the adjustment is automatic. Some plans without variable annuities, however, have increased benefits for those already retired.

The decline in the value of private pensions is a most important issue, especially in this time of relatively high inflation. Unfortunately, I could not accumulate enough information about developments in private industry concerning this issue to discuss it in the paper. I, therefore, mention it as an important area for future inquiry or for comment by the experts appearing before this committee today and tomorrow.

The second point I wish to make concerns what became the underlying theme of my paper. I have tried to indicate in the paper that the present lack of self-imposed minimum standards of adequacy and equity in the overwhelming bulk of private plans today does not seem to be due primarily to the special circumstances of various industries, occupations, or firms. Rather, this lack of minimum standards arises in large part from the major conflicts between the objectives of the various participants in the

[1] See appendix A, p. 1497.

pension plan decisionmaking process—conflicts between older and younger workers, between unions and workers, between employers and employees, and between the Government—representing the general welfare—and private industry in general.

The problems that arise from these conflicts can be illustrated by two developments in the private pension field.

Two Significant Pension Developments

The first development is the practice of granting retroactive pension credits for periods of past employment when new pension plans are established or old ones are liberalized. Granting "past service credits" is obviously in the interest of older workers.

But what is important to see is the fact that a strong motivation for unions seeking these credits and employers granting them has been the totally inadequate level of social security benefits.

Let me explain.

Scholars in the pension field are familiar with the controversy over emphasis upon individual equity versus social adequacy. Private insurance is supposed to be based on the individual equity concept while social insurance is supposed to be able to also take into account (perhaps even emphasize) social adequacy.

What, in fact, has happened is that although social security now saves many old people from poverty who paid relatively little into the system, its benefits in no way achieve social adequacy.

Private pensions, therefore, have tried to supplement the social adequacy function of social security by past service credits. Unfortunately, the result has been to reduce the individual equity of such plans. In the words of the Staff of the American Enterprise Institute:

> * * * there is general agreement that grants of past service pensions do constitute the crux, in the main, of the problems with which the proposals on pension vesting, funding, and reinsurance seek to deal * * * If past service credits are not granted, vesting costs are materially reduced. Consequently, available pension resources can be allocated to earlier vesting of the individual pension rights.

Thus, Congress—by refusing to deal realistically with the serious income problems of the elderly through the social security system or, as some have proposed, through a negative income tax system—is partly responsible for the seriously inequitable private pension system which we now have.

A second problem which arises from the multiplicity of pension objectives is the present inadequacy of survivors' benefits in private pensions. Typically, the lack of adequate survivors' provisions is justified by reference to tradeoffs which must be made between the costs of various types and levels of private pension provisions. "We can't do everything immediately," it is said.

But, here again, as in the case of vesting, what good is a private pension promise if you cannot be certain that it will ever provide income security in retirement?

For this, Mr. Chairman, is the primary function of any pension—to provide—to guarantee—sufficient income so that a family can continue to meet its expenditure needs after the workers of the family are forced to retire. But without meaningful vesting, there is no guarantee—hence, no security—that the income will be available when needed. And, without meaningful survivors benefits, once again there is no guarantee—no security—that the surviving family will be able to meet its needs.

How can any worker trade off his own future security? How can any union or employer understate these needs of the worker?

"SOCIAL ADEQUACY"

Mr. Chairman, I think that it is time that we deal with the "social adequacy" or poverty problems of the elderly and nonelderly alike by an updated and modernized income maintenance system such as the present administration or the Commission on Income Maintenance has proposed.

And, at the same time, we should allow and encourage the social security system and private pensions to do what they can do best—provide and guarantee substantial replacement of earnings to the retired at all income levels and to provide such replacement through pension benefits which are based in large measure upon individual contributions and contracted rights.

It is my earnest hope that the background paper prepared for these hearings meaningfully contributes to the discussion of this fundamental issue.

Thank you.

Senator HARTKE. Thank you, Dr. Schulz.

Let me ask a question basically.

When pension plans came to flower, didn't they really develop more during the period of World War II and that period immediately following than at any other time in history?

Dr. SCHULZ. Well, they began to develop most rapidly during that period, but significant development has continued on up to the present day.

There is, however, a question, which I raised in my paper, as to whether there may be a slackening off of this development.

Senator HARTKE. Well, has any study ever been given to whether or not there was a real development of pension plans on the basis of providing for the individual's requirements or were they nothing more than escape hatches to avoid wage controls?

Dr. SCHULZ. I think you are correct. I don't think the basic motivation for the earliest private pensions was to provide adequacy.

Senator HARTKE. In my conversations, I find individuals who are thrown into poverty for the first time as the price for their retirement.

Dr. SCHULZ. My studies have shown also that this is very common.

Senator HARTKE. The problem of the aging at the present time is certainly aggravated by the sharp increase in the cost of living and the administration continues to fight inflation with more inflation which is certainly self-defeating. But I find almost a complete array of the economic experts of this Nation saying that that is exactly what must be done—increased unemployment, increased suffering, increased tightening of the belt, increased austerity in a Nation which has been built on abundance, and progress.

I don't know if you addressed yourself in this paper to this specific problem but I would hope that maybe some of the economic experts would come up with some new approaches.

I just don't think the old ways are good enough any more.

Now, the National Council of Senior Citizens with the panel.

This panel of retirees is to be introduced by Mr. Rudolph T. Danstedt, Assistant to the President.

I might say parenthetically concerning the statement by Dr. Schulz on the welfare system that there has been no movement inside the Congress by those who are responsible or who should be responsible at least for asking for hearings. I am a member of the Finance Committee and I have addressed to the chairman of that committee a request that this proposal and any similar proposal be given hearings at the earliest possible date. I think it is a tragedy that this program, which is an innovation at least, is relegated to the position of sort of the fourth team of the Chicago Bears. I mean, their first team did not have a very good year.

All right.

We will go right ahead then with Mr. Danstedt.

You may proceed, sir.

STATEMENT OF RUDOLPH T. DANSTEDT, ASSISTANT TO THE PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS; ACCOMPANIED BY: ED MURPHY, ASSISTANT EDITOR, SENIOR CITIZENS NEWS; MEMBER, NEWSPAPER GUILD, MONTGOMERY COUNTY; LEHMAN G. HOWELL, RETIRED TELEPHONE WORKER, COMMUNICATIONS UNION, WASHINGTON, D.C., MISS LOUISE MONTOBY, RETIRED DEPARTMENT STORE WORKER, BROOKLYN, N.Y.; JAMES E. ROSS, RETIRED POSTAL EMPLOYEE, WASHINGTON, D.C.; IRL BEALL, PRESIDENT, MARYLAND STATE RETIRED TEACHERS' ASSOCIATION, HOWARD COUNTY, MD.; AND MRS. ELIZABETH MacDONALD, PRESIDENT, MONTGOMERY COUNTY RETIRED TEACHERS' ASSOCIATION, MONTGOMERY COUNTY, MD.

Mr. DANSTEDT. Senator Hartke, I am Rudolph T. Danstedt of the National Council of Senior Citizens.

May I introduce the panel?

We are going to handle this on a very informal basis.

I might indicate that we are all retirees so I think we all have some good illustrations of what retirement has meant to us. One of our favorite sayings is, "We may be retired but we are not tired yet."

The first panelist is Mr. Irl Beall, who is the president of the Maryland State Retired Teachers' Association.

Mr. Ed Murphy, who is assistant editor of the Senior Citizens News and a former member of the Newspaper Guild—AFL–CIO.

Miss Louise Montoby from Brooklyn, who was for a long time an employee in a department store and is a member of District 65, Distributive Workers of America.

Mrs. Elizabeth Macdonald, who is president of the Montgomery County Retired Teachers' Association.

Senator HARTKE. Richest county in the Nation, I heard.

Mr. DANSTEDT. Yes, and we may want to talk a little bit about their retirement plans for teachers. While some plans are good, some are not so good.

Mr. James Ross, who is a retired postal employee and is also chairman of our Area Council here in Washington.

Mr. Lehman Howell, who is a retired telephone company employee, and was a member of the Communications Workers of America—AFL–CIO.

I think we have got a pretty good cross-section of persons who have been employed by government, both Federal and local, and as well as those who have been employed in private industry.

The few remarks I have are along this line:

In the first place, I would like to point out for the National Council of Senior Citizens that we are most appreciative of the outstanding job the Senate Special Committee on Aging has done in the area of economics of the aging, of which this most recent study of the pension aspects is still a further valuable and helpful contribution.

From our vantage point, as an organization of senior citizens, I and my fellow panelees will address ourselves briefly to, first, how well individuals about whom we have knowledge and who are privileged to have pension coverage are doing and then provide some case illustrations of how the hopes some persons had of retirement income from pensions have not been fulfilled.

First for the relatively happier side of this picture.

The members of this committee are probably familiar with a study conducted in 1968 by the Los Angeles County Federation of Labor, AFL–CIO, in which 1,250 retirees of local unions of 10 different internationals were interviewed under a project financed by the Administration on the Aging and the County Federation of Labor.

Let me remind you of some of its findings. This sample which represented about 10 percent of the retirees and consisted largely of married couples—72 percent—had an annual average income of about $3,600. Despite the fact that the average individual in the sample had been a union member for almost 30 years and presumably had a reasonably steady employment record, the income retirement from social security and pensions was $800 below the BLS intermediate budget in 1969—$4,400 a year—for retired couples in the Los Angeles area and half of the higher budget—$7,000—for elderly couples in Los Angeles. These facts bear on the point Dr. Schulz was making before.

This intermediate budget, it will be recalled, was decidedly frugal. Practically no provision is made for meals out of the home, a used or older car is stipulated while very limited funds for movies, theatre or other forms of recreation are provided—hardly the so-called "golden years" of retirement.

Even the so-called higher budget which, it will be recalled, was almost twice the average income of these pensioned Los Angeles retirees, made no provision for the so-called comforts—all really necessities in the Los Angeles area, like air-conditioning and a new and hopefully dependable car and the resources, when the spirit moves, to visit children and grandchildren in other parts of the country.

No Cost of Living Adjustment

A number of these pension programs probably do not provide for any adjusment for the rise in the cost of living, over 10 percent in the past year.

So it is a good guess—and this, I think, is rather interesting—that the majority of retirees who in 1968 said they were just getting by—they were a surprisingly patient group—may have a somewhat different perspective on retirement in 1970.

It is also of interest to note that at least half of the retirees show a good, solid middle-class interest in travel tours, noting, however, that this dream could not be realized unless group sponsorship of tours would substantially reduce costs or a windfall of cash should become available.

It is a good guess that the upcoming generation of future retirees are going to be a lot less patient about the question of adequacy of retirement levels than is true of those of us who now are out of the active labor force. While none, perhaps, may ask for the 100 percent retirement pay of Supreme Court Justices, they will want and, I think justly so, a much less abrupt drop in income than is now true of the present situation where the average retiree considers himself fortunate if he doesn't fall below 50 percent of his pre-retirement income.

Although we are here today to talk about pensions aspects of economics of the aging, we do not and cannot overlook the fact that three out of 10 older people today live in poverty. The only way to move these persons out of poverty and to supply a basic floor below which no aged persons must be allowed to fall, is to enact the Williams Bill, S. 3100, and its House counterpart, the Gilbert Bill, H.R. 14430.

Once we have established the Social Security System at the level of benefits provided into these two forward pieces of legislation, we can then view group pensions as essential supplements to these basic Social Security benefits.

The National Council of Senior Citizens is committed to an income provision goal that will assure all elderly people comfortable and secure retirement years. To secure this goal, we need not only an adequate Social Security System but also bold government leadership in promoting private group pensions and other appropriate supplementary sources of income.

Now we are going to try to handle this, Mr. Chairman, very informally.

Senator Hartke. Let me ask you a question, Mr. Danstedt.

Do you believe that the Congress is going to do anything of this nature to make the Social Security System adequate? Do you really believe that now?

Mr. Danstedt. I would suspect it is going to be a difficult struggle but at least we in the National Council of Senior Citizens are going to keep on trying to do something about it.

Senator Hartke. I am really not disparaging your effort. What I am asking is: Do you really believe that the Congress is going to do this?

After all, we had to struggle for 15 percent and the point remains that the 15 percent you know was paid out of Social Security reserves; this was sort of taking it out of your skin because it had already been paid for. This administration was accumulating that surplus to pay for the other expenses of government.

The Government had a $3 billion cost surplus and $5 million of that $3 billion came from the Social Security fund. That is pretty nice.

Mr. DANSTEDT. Yes; I know that.

Senator HARTKE. I mean, these old people—I am sorry to refer to them that way——

Mr. DANSTEDT. Senator, a lot of us continue to live in hope.

The solution to the problem is not going to benefit us so much but I think one of the things that characterizes us is we want to see better plans made for the younger people at the present time and for future retirees. I think we are going to have to face up, sir, against the question of a contribution from the general revenue some day and possibly it is going to take a device of that sort to enable us to get a fairly adequate level of income so far as social security is concerned.

I am encouraged by the fact that there is not quite the apprehension, at least I think I am right on this, about the use of general revenues for bolstering up some of our systems that there used to be in the past. We are doing it already.

Senator HARTKE. I am encouraged, too, if you are but I just don't want to go into the——

Mr. DANSTEDT. Sir, if I can speak as an individual at this particular point rather than as a representative of an organization, I have worked on the Washington scene for a number of years before I came on this present job. I worked with the National Association of Social Workers and I would say the prospects are rather bleak for any significant increase in the immediate period ahead.

But I hope we can keep pushing because I think the answer for the device that might break the dam some day is to get some sort of Federal subsidy of our retirement system.

Senator HARTKE. What bothers me at the moment is, a lot of people are of the opinion, why should you do any more for the retirees on social security? We gave them 15 percent; isn't that enough?

Mr. DANSTEDT. I understand what you are saying.

Senator HARTKE. I am not satisfied. You know I am not, don't you?

Mr. DANSTEDT. I know.

Senator HARTKE. What I am saying to you is, it is a crumb from the table and, you are told you should be thankful for the crumb.

Mr. DANSTEDT. We call it an emergency bill which I think was a most appropriate description.

Senator HARTKE. This last increase was hardly enough to keep up with inflation.

Mr. DANSTEDT. The day I, personally, give up hope is the day I quit, and I am not ready to quit at this point. I lived through the Medicare situation. I am old enough and go back far enough to have lived through the whole business of the Wagner-Murray-Dingell bill and some of the other devices that came later on.

Sir, I would have thought back in the summer of 1964 the prospects of enactment of Medicare were not very good.

Senator HARTKE. You are going to keep talking; right?

Mr. DANSTEDT. No, sir.

Senator HARTKE. No; no.

(Laughter.)

Senator HARTKE. No; I didn't mean that, sir. I mean, are you going to keep voicing your opinion?

Mr. DANSTEDT. Keep pushing.

Senator HARTKE. You are going to keep on voicing your opinion?

Mr. DANSTEDT. Yes, sir.

Senator HARTKE. You don't intend to be a part of that silent majority?

Mr. DANSTEDT. No, sir.

Senator HARTKE. All right.

Mr. DANSTEDT. I think some of our panelists will give you some response.

Senator HARTKE. I am glad to hear the voices of the vocal minority.

Let's go ahead.

Mr. DANSTEDT. All right.

Senator HARTKE. Mr. Oriol is going to have to take over here. I do have another hearing to chair; we are trying to clean up the Great Lakes.

We appreciate your help, sir.

Fine. I do have a keen interest in this committee and although I think I am the junior of the junior members here, I want you to know that that has no relationship to my dedication to the advancement of the interests of the aged.

Mr. ORIOL. Thank you very much, Senator.

I might add that Senator Hartke had another hearing to conduct at 10 o'clock and came here first to get us started. It is much appreciated.

Mr. Danstedt.

Mr. DANSTEDT. We had what I would call a rehearsal, a little dry run yesterday afternoon, and maybe it won't work as well as it did yesterday afternoon but I think we can start out by asking almost any member of the panel who wishes to make any comment that they want at this time.

I will try to point out to you that we got a group of individuals who can talk about some good arrangements all the way down to people who can talk about some poor arrangements, down to some people who even lost out on any kind of a pension coverage.

Ed, I don't know whether you might want to start and then we will sort of toss it back and forth.

STATEMENT OF MR. MURPHY

Mr. MURPHY. My name is Ed Murphy, assistant editor of the Senior Citizens News. I spent my life as a newspaper reporter. In 1959, I had already worked about 19 years for a morning newspaper called the Grand Rapids Herald, which was folded at that time and we had a modest pension plan which was the result of excess profits, taxes and World War II, and the Internal Revenue Department told the publisher to either fold the pension or pay the excess profits tax, so we got a pension. I think my pension would have amounted to $40 a month.

However, when the newspaper was folded, it was taken over by the opposition, the pension was paid off, and in fairness I got the employer's contribution which came to around $5,000 and this enabled me, among other things, to buy a new car.

Then I managed to get a job with the International Association of Machinists as associate editor of Machinists, their weekly newspaper, and I would have qualified for a pension with the machinists union if I had been a little younger. You are supposed to be on the job 10 years.

I also would have qualified for the railroad retirement benefits which, as you know, are higher than social security because the railroad retirement system covers headquarters employees in a machinists union. However, I had to retire from the machinists union at age 65 under a mandatory rule voted by the membership and the result is that I was eligible for social security but not for railroad retirement.

The irony of this situation is that the additional contributions, payroll tax under the Railroad Retirement Act, was never returned to me because they told me that the law states that when I die my wife will get that difference.

I believe that we need both social security, railroad retirement, and the private pensions. However, we certainly need widespread reform of the private pension system. My own suggestion would be for Congress to set up—you might call it a Federal pension commission, which would register private pension plans and establish the minimum requirements so that the pension would be vested and paid off and would be portable to the extent that there are other private pensions registered with this commission.

I would assume that this would be a voluntary proposal for any company that sets up a pension system. If the pension is registered with the Federal pension commission, it would have to come up to the certain minimum standards of vesting and credibility. If it is not registered, that is evidence that it does not come up to these standards. I hope that this might be considered in the course of these discussions.

Mr. ORIOL. Mr. Danstedt, is it all right if we break in with questions?

Mr. DANSTEDT. Yes; indeed.

Mr. ORIOL. Mr. Murphy, may I ask, how long you were working for the newspaper in Grand Rapids? Did you contribute to the pension system?

Mr. MURPHY. Just a short time. The pension system, as I recall, was set up in 1949 and, of course, the paper folded in 1959.

Mr. ORIOL. So, for 10 years you contributed?

Mr. MURPHY. That is right.

Mr. ORIOL. Were you in your fifties when you reached the machinists newspaper?

Mr. MURPHY. Yes; 59.

Mr. ORIOL. And they had a 10-year retirement before you could be eligible?

Mr. MURPHY. Before I could be eligible for a machinists pension or for benefits under the Railroad Retirement Act.

Mr. ORIOL. Would you have been willing to pay more from your paycheck to have vested protection before the 10 years were up?

Mr. MURPHY. Oh, certainly.

Mr. ORIOL. About how much more would you have been willing to pay?

Mr. MURPHY. Within any reason, any amount necessary to protect me. I also would have been willing to pay higher social security taxes during the period I was employed in order to get higher social security benefits but the law didn't stipulate that and there was no way to do it.

Mr. ORIOL. Any other questions of Mr. Murphy?

Mr. DANSTEDT. We might swing to Mr. Ross, who is a retired postal employee. Of course, Federal employees are supposed to do pretty well in retirement. Mr. Ross was with the Post Office 30 years. He might tell you a little about his own reactions to the pension arrangements.

STATEMENT OF MR. ROSS

Mr. Ross. Mr. Oriol, the testimony that I give is based upon how I am affected as a retired Government employee and would cover quite a number of persons who would be in the same category that I am in.

I worked for the Post Office for 38½ years. During that period of time, I made contributions to the retirement fund. I have been retired 13 years. I am 70 now. I may say that at the time I left the Post Office, the top salary for a clerk was $4,700. The same employee now gets $8,442.

With my figures, I figure over the 13 years that I have been out my annuity has only been increased by 5 percent and the employee who is still working has had an increase of 25 percent although that is not comparable to the wage scales.

My suggestion on that would be that when consideration is given to raising the salaries of the working people, then some consideration should be given to the persons who are already on the retired list.

Now, when I retired, they had a formula based on the small salary that I was getting which naturally cut my annuity down. The present employees have a better formula to go by. No consideration is given to those who are on the retired list. I feel that wherever the employee who is working gets some consideration, then some consideration should be given to those persons who have given their years.

I may also say this, that when a person works for the Government 38½ years, he does not have the opportunity to contribute to Social Security which some persons have been able to do but I figured that that has its holdbacks because of the fact that a person after he retires, he goes out to get another job to build up his social security which would give him some additional pay. I figure that that renders a problem that confronts the nation so far as unemployment because it forces so many people to work two or three jobs and so forth.

Now, I may say that during the period of time that I was making the contribution they were also taking tax out of my retirement. These are the things which I say affect the small annuity that I draw.

Now, after the first year and a half that you are out of the service, why, you do not have to pay any income tax because of the fact that at that time the money that has accrued to your credit in that fund is still available but when the Government begins to pay you, then you have to begin to pay income tax. Now, they have given some consideration on the income tax forms to retirement credit. I do not feel that that is sufficient.

Now, when the Social Security gets its raise, just recently they got another 15 percent raise and the Government retirees only got a 4. Now, the only reason they got 4 is because their increases are tied to the cost-of-living raise. That, I don't think, is a fair basis because during that period of 3 months that they are waiting for the cost of living to rise to justify giving us a raise, we are paying additional for consumer products and so forth during the period of time which is digging into the small amount that we get before we get the raises.

These are some of the things that I say that cut us down.

Limitations of Medicare

Now, they have given us Medicare. Under Medicare, I was in the hospital about 3 weeks and Medicare paid a part but when I came out I owed the doctors and the hospital a certain amount of money because of the deductibles and so forth that they take off which a lot of poor people are not able to do. Now they are increasing those.

So, the various increases and the cost of consumer products and because of the fact that my annuity is a little over what is required, I cannot get into the National Capital Housing Authority nor can I get a place where I can have reduced rent because my annuity is a little over what they require. I think that that should be raised which would give the people a benefit.

I say those things hoping that the testimony that I give affecting me can be helpful to you in your study and at the same time with my position.

I am president of the Area Council of Senior Citizens representing 69 clubs in the area and I am in touch with and hear the cries of those elderly people who are only on social security and welfare so that their plight is much worse than mine.

I appreciate the opportunity to have brought you this informal testimony hoping that in some way it may be of value to you.

I thank you for the opportunity of testifying.

Mr. Oriol. Mr. Ross, we thank you.

The idea of this panel was to get direct testimony from people who are trying to make use of pension systems. We receive a lot of testimony on the national scene, friends and so forth, but you are giving us personal knowledge and it is very helpful.

I wanted to ask you if I understood this right. Roughly the job which you held at retirement, the salary has doubled in the last 13 years of your retirement?

Mr. Ross. Yes.

Mr. Oriol. That is a dramatic illustration. The gap between retirement income and work income is about 50 percent and here is an example.

Mr. Ross. Yes.

Mr. Oriol. Another thing I wanted to ask you: You now have good working expertise in all of these alternatives—not only alternatives but all the provisions and requirements. Was it easy for you to get this expertise? What help did you get from the Federal Government in learning what you were entitled to and what different status or different approaches would have given you? How helpful was the Federal Government in giving you the information you needed to make the decision on your retirement income?

Mr. Ross. Mr. Oriol, during the period of years we were able to get the information, I may say this: It may answer your question. At the time that I decided to retire, I checked with the finance office to find out because of the number of years of service that I had, 38½ years service, and I was at the age of 57 then; I am 70 now—to find out with those facts how much I could get in annuity. When I got the letter back from them, the annuity which I would get was $5 less than what my take-home pay was at that time.

So, I, in my judgment, felt that it cost me $8 for transportation to come back to get the $5, so I didn't see any reason why I should continue to work and volunteer so that I retired on that basis.

I hope that gives you some idea.

Of course, they had this scale which was made available to you, the formula for the number of years, a certain number of years at 1 percent and then the remaining 10 years at two percent and so forth, but I had to take a 3 percent reduction because of the fact that I decided to retire before I was 60. Sixty was the age at that time.

Mr. Oriol. Thank you.

Mr. Danstedt. I might say Mr. Ross is pretty ambitious. He worked in the Philatelic Division which he worked as a sideline which helps his retirement. Some of the people have got to have some kind of employment on the side to manage.

Mr. Miller. Mr. Danstedt, since you raised that point, would it be out of order to ask how much he is earning from his philatelic activities?

Mr. Danstedt. I don't know.

Mr. Ross. Yes; I could answer that.

That is predicated on the number of stamps that the Post Office Department issues during the year. Now, most of the time I just service covers here in Washington. A couple of years ago, I had an opportunity to travel through the Southwest and service stamps there but I am just associated with a dealer and it may happen, say, four or five times a year.

Mr. Miller. My question was: How much income are you deriving from this?

Mr. Ross. I could not say in exact figures. It fluctuates on how much you have to service.

Now, on the moon stamps, that just came out last fall, why, that was a tremendous success because they serviced over 9 million of those stamps.

Mr. Oriol. If I may interrupt, Mr. Danstedt, Mr. Harold Sheppard, who is an original member of our staff on Economics of Aging, has brought a group to this hearing from the AFL–CIO study group.

Dr. Sheppard, would you care to join us. Thank you for coming.

Mr. Danstedt. I might say in our discussion yesterday afternoon we did not come to any profound conclusion and it certainly was not original but I think we had a lot of convictions about not only should there be come device reflecting the rising cost of living in retirement but there ought to be some method also for taking into account the increase in our national productivity.

In my own particular instance, for example, I work for the National Association of Social Workers but I have no cost-of-living formula. Now, one might have thought that an outfit like ours with its social concern ought to be a leader but we are not.

I would like to call on Mr. Howell, who is a retired telephone worker. I think he might again give you an illustration of private industry somewhat similar to what Mr. Ross has put forth.

STATEMENT OF MR. HOWELL

Mr. Howell. I retired from the telephone company, forced retirement, at age 65 in 1964 and, of course, I draw Social Security out of the telephone company. As you probably know, they took out half of the equivalent of the Social Security from our pension back ahead of my retirement.

At the date of my retirement, they took out a third; later reduced to a fourth; and last year finally stopped taking out any of it through bargaining of our union.

In 1966, I had a serious illness and I have to go to the doctor once a week and will the rest of my life. I will also have to take medicine the rest of my life. My regular doctor bill is $20 a week. If there is anything extra, that is extra, also. My medicine retails for $29.95 for 100 tablets. I take one a day. Fortunately, my doctors gets them a little bit reduced.

I have worked a little bit of part-time work to pay for the extra medical expenses. Of course, Medicare pays for some, a good bit of it, in fact. If it were not for that, I would have to work a full-time job but they pay a good bit of it. Then I work the part-time job to supplement my retirement and to pay the extra doctor bills and so forth.

I am very fortunate, though, compared to some others. We have a minimum retirement at the present time of $125 a month for 15 years' service or more. Under that, it is $85 a month. We have some people who have been retired as long as 25 years. I hate to think of what they are getting compared to what I am getting even after retirement of 5½ years, but I understand that some of them are on welfare, their retirement and Social Security are so low.

I believe that just about covers what I want to say unless you want to ask me some questions.

Mr. DANSTEDT. You were pointing out that up until fairly recently the company deducted for your pension a reasonable amount.

Mr. HOWELL. Yes.

Mr. DANSTEDT. Is there any formula in your pension arrangement which takes into account the rising cost of living?

Mr. HOWELL. None whatsoever.

Mr. DANSTEDT. Has that been bargained by your union, to take that into account?

Mr. HOWELL. I am not sure whether they have bargained for a cost-of-living increase.

Mr. DANSTEDT. In other words, the retirement you are getting is all you are going to get for the rest of your life right now, there will be no upward adjustment in it whatsoever?

Mr. HOWELL. That is right.

Mr. ORIOL. As of now, if there is an increase in Social Security, that is not deducted from your pension?

Mr. DANSTEDT. It is not deducted. The 15 percent increase that will come into effect in April and retroactive to January will not be deducted?

Mr. HOWELL. None is being deducted now. That started in June of last year. They stopped taking out any of our Social Security—I mean, from our pension for part of the Social Security. Of course, they cannot take out the Social Security. They take it out of our pension but they took the equivalent of half to start with and then, as I said, reduced it to a third, a fourth, and last spring stopped taking out any, so now I get the full retirement.

Mr. DANSTEDT. I might say another experience we have noted is that there is an increase in practice, but it is not very widespread, not to include Social Security in retirement. Up to this particular point, they do reduce your Social Security. In other words, they figure an overall figure and then the Social Security comes out of that in terms of what you get as a pension but there is a new plan being developed and I understand there is an increasing trend in the field not to include the computation for Social Security in the pension the individual receives.

Now, I think it might be appropriate to take a little look at some experiences with respect to teachers. I wonder if Mr. Beall might want to make some comments at this point.

May I remind you he is president of the Maryland State Retired Teachers' Association.

Mr. ORIOL. Mr. Danstedt, we have Bell and Howell on this panel.

Mr. DANSTEDT. Yes.

STATEMENT OF MR. BEALL

Mr. BEALL. I wish together we could represent the money that Bell and Howell represents.

I would like to speak, first, in reference to the State and then, second, how it affects me personally within the last year particularly.

I have been retired from the Baltimore County School System and under the Maryland State Retirement System since 1966, having spent 43 years in the teaching profession.

We had some bills in the legislature in 1968. We were not successful but we did do some study at that time and I have some statistics I would like to present just a little later.

Our system began in 1927 and it started because we had a State superintendent who was a very forward-looking person. The original bill called for a formula based upon the 10 highest years or the highest 10 consecutive years of the person working. That has since been changed to the five, the average five, highest consecutive years under which we are now working.

There have been some adjustments over the period of years but in 1967 we had a rather good supplemental adjustment; it dealt with any teacher who had been in service over 25 years. Now, those people who had had a less number of years were not included and, of course, in that area is where we got our low incomes.

In that 1967 supplemental bill, it did two things: It established a floor of $2,000 and it established a ceiling of $4800 for the supplement. Now, not $4800 for pensions but $4800 for just supplement.

Then an unfortunate happening. In order to get the bill through, they had to compromise on taking social security from the supplement which meant that a great many people who otherwise would have received a supplemental increase did not get any but it did help some.

Now, that was only a partial help and it helped those below $4800: it didn't help those that had a pension above $4800. I suppose they figured that those people didn't need it but the cost of living affects those people just the same as it affects those people who are getting a lesser amount, maybe not as much, but at least it affects them.

Then in 1969 two bills were introduced into the State legislature, one bill to change the formula for the active teachers from one-seventieth of the 5 highest years to one-sixtieth, which meant an increase of approximately 16⅔ percent.

So, when they did that for the active teachers, they did it also for the retired people, but this time there was not any limit; it was for everybody and not just retired teachers, but it was for the entire retired system.

A Three-Part System

Now, the Maryland Retired System is composed of three parts: Teachers, government workers and State police. So, when a raise is given or any adjustment is made in the pension system it applies to everyone. Of course, the teachers, since I was a teacher, we were most interested in that.

Now, even though we got this very good increase, we still have many deficiencies. Now, I would like to give you just a few little statistics, one from an Eastern Shore county, to show how they are affected. This is 1968, and it is the latest information.

Then I would like to compare that with the metropolitan county because of the difference in salaries to show you the similarity, and then just a few figures in reference to the State as a whole.

In this particular Eastern Shore county, there are three retired teachers between the ages of 76 and 79 years of age, who are receiving less than $70 a month. Now, this was in 1968. With the supplement, they would be getting now $87.50 a month. These people had over 36 years of teaching experience. So, for 36 years of endeavor, they are getting the good sum of $87.50 at the present time.

There are 19 retired teachers over 75 years of age, each receiving less than $300 a month. Now, of this group, 11 people are over 80 years of age. There are 13 people who have each taught 45 years or more and are receiving between $200 and $300 a month. One retired teacher, 88 years of age, receives less than $170 a month. One retired teacher, 92 years of age, who taught 51 years, receives $238 a month. Now, this was in 1968.

There are two teachers 90 years of age who taught more than 40 years and each are receiving less than $270 a month. Only two retired teachers in this particular county receive as much as $400 a month.

Thirteen retired teachers, and this accounts for 50 people in this survey, and it is about all of the retired teachers in this county—13 got some supplement of the 1967 issue.

That is an Eastern Shore county which would be in a farming area.

Now, in a metropolitan area, I won't give you quite as much detail this time. Forty percent of 117 people who reported from this county receive under $3,000 a year. Another 42 percent receive under $4,800 a year or between $3,000 and $4,800, which means that 82 percent receive under $4,800 a year in this metropolitan county which has been one of the leading counties salarywise in the State of Maryland other than Montgomery County, which means that only 18 percent of the people who were retired as of 1968 were receiving over $4800 a year and only one of those was receiving over $600 a month in pensions.

Now, of course, that has improved with the group that retired in 1969 and benefited by the change in formula. There was an improvement in that particular system.

Now, how does the State look? Now, if you notice, those two are comparable, about the same percentages are working.

Now, for the State. We had 45 percent of all of the people who reported and about 50 percent of the people who are retired in the State, of which we have right now 2,595 teachers in the State of Maryland that are retired and about 45 percent of this group receives under $250 a month.

Another 45 percent receives between $250 a month, which leaves 10 percent getting better than that amount. Most of these who receive this low amount are people who have spent 25 years or more in the teaching profession. We have a small number who, for many reasons, retire with 5 or 10 years of experience or somewhere in that area and, of course, they have low pensions because they had low salaries where their income was low.

Now, I think that gives you a pretty good picture of the State of Maryland. We do have one of the better retirement systems. I have attended a number of meetings where in other States I have reported. Ours is one of the better ones; it is one of the more forward-looking ones; but even then we are not keeping pace with the cost of living.

Now, I would like to just mention a few things that affect me personally, as an individual. I don't know how many of you are familiar with Howard County and the city of Columbia. There has been a great deal in the paper about it. Columbia has affected the economic status of Howard County a great deal.

Property Tax Zooms

We moved into Howard County in 1962. We bought there because it was rural, a rural county. Tax rates were low. Assessment was low. Land values were low, and we thought this would be a good place to locate in our retirement years, so we invested some money in a new house and moved there. In 1969, we had an increase of 43 percent in the assessable basis on our land.

We had a 20 percent increase in the piggy-bank income tax which is Howard County's local income tax based on the State tax. We had an increase of 1 percent in the sales tax of the State and now we have an additional increase of $1.30 a month on the Medicare.

So, even with the 16⅔ percent increase that I received in 1969 which went into effect July 1, you can see that already it is being eaten away by these increasing costs and that does not include the ever-rising cost of living which affects all of us.

I think that gives you a fair picture of it.

Mr. Oriol. Mr. Beall, would you give us an estimate on how much the higher property taxes you are paying is by school construction and school operation?

Mr. Beall. No; I am sorry I could not give you that. I can say this much: Most of the new buildings in Howard County—Now I am speaking of Howard County at this time—deal with the new schools that are going into Columbia. because here is a new community rising very rapidly; it is going to have 100,000 people in it by 1980, which is just 10 years from now.

They have to build brand-new elementary schools, junior high schools and senior high schools. When you begin building senior high schools, you can spend anywhere from $6 to $8 to $9 million. Elementary schools that used to cost $500,000 and $750,000 are now costing a million and a quarter.

Mr. Oriol. The reason I asked the question: Do you as a retired educator find resistance even among former teachers to rising property taxes being used for educational purposes?

Mr. Beall. No; I can't honestly say that because I don't have that much contact with the young people.

Mr. Oriol. How do you feel about it personally?

Mr. Beall. Well, I can tell you they are really affecting me personally.

Mr. Oriol. Well, do you see Federal aid to education as a way of equalizing or reducing the need for property-tax assessments?

Mr. Beall. Yes; I think it is going to have to come, and more State aid, too; no question about it. The property taxes or taxes on property are just about reaching the limit as to what the people can really pay. Of course, we are not as high as, for instance, Baltimore County, which has a much higher rate than we do. I think Montgomery County has a large amount, and Baltimore has a much higher rate, but we are climbing.

Mr. ORIOL. Does your county get any impacted school aid?

Mr. BEALL. Yes; they get some but not very much. We would not be affected as much as, for instance, Baltimore County, with its military installations. I think that has gone down a good bit because the Government is getting out of many of the areas of the county. But it is a real problem and I get a feedback from these people who are on the low end of the retirement scale.

We have one person who retired in 1928. Now, that is a good long time ago. We had another one who was retired in 1931. When they retired, salaries were low. I know just since I have been retired my salary would be at least $5,000 higher if I was in service today than it was when I retired in 1969, and that would make a considerable difference in my pension.

Mr. ORIOL. Thank you.

If I may introduce the other people up here.

John Guy Miller, our minority staff director.

Miss Dorothy McCamman, our consultant on Economics of Aging.

Dr. Schulz you have already met, and Dr. Sheppard.

Miss McCamman has a question.

Miss MCCAMMAN. Yes.

Relating to these very interesting figures on what the amount of pension income is, particularly in your more rural counties, do I understand that the Maryland State Retirement System is in addition to Social Security coverage?

Mr. BEALL. Oh, yes.

Miss MCCAMMAN. But at what point would Social Security coverage have been effective? Many of your oldest teachers must have retired before they would have had Social Security coverage.

Mr. BEALL. Yes. The State went into the system in 1956.

Miss MCCAMMAN. In 1956?

Mr. BEALL. Yes.

Miss MCCAMMAN. So, another six quarters of coverage, or something like that?

Mr. BEALL. In 1956, they would not have been eligible for social security.

Miss MCCAMMAN. That is a fairly high proportion.

Mr. BEALL. A good many of those people are married and are subject to social security from their husbands so that when we made the survey I was surprised at the number of people who in one way or another do get social security but there are some, of course, that do not.

Miss MCCAMMAN. Thank you.

Mr. DANSTEDT. I want to skip Mrs. Macdonald for the moment because she will give us an illustration of another teacher retirement system and ask Miss Montoby, who worked for many years in a department store and is a member of District 65 of the Distributors Workers, to comment.

Louise.

STATEMENT OF MISS MONTOBY

Miss MONTOBY. I was asked to come down here to give my experience and it is not a case of a small pension but no pension.

I worked in a department store for 27 years and all of a sudden the store decided to close. They had a company pension which requires 25 years of service and you had to be 65 years of age. Unfortunately, I was just a year and 10 months short of 65 and that meant I was not eligible for the pension; I just was not able to receive any.

Now, had that been a union pension, I could have continued for the short time in another store covered by the union pension. Inasmuch as it was a company pension, I was just out of luck and there was nothing to be done. They gave us a small severance pay and that was all.

Mr. DANSTEDT. Did you buy a car with it?

Miss MONTOBY. No; I could not. Instead, I took a 2-week trip to Florida.

While I had 27 years of service, there were people there with over 40 years of service and it affected them, also—people who had never worked anywhere else but there and the closing was quite unexpected.

So, that is all there is to my story. I was asked to come down and to give you this story on it.

Mr. ORIOL. Miss Montoby, may I ask, if you know, it looks as if there was a surplus in that pension fund, or didn't they have a pension fund?

Miss MONTOBY. You mean regarding the severance pay?

Mr. ORIOL. To pay the employees, they must have been putting money into a fund.

Miss MONTOBY. They must have.

Mr. ORIOL. I wondered what happened about the money in that fund.

Miss MONTOBY. I asked about it because a number of people were worried, those that were getting pensions—there were a few that were—and they were worried about just how long that would last as long as the store was out of business. I happened to have asked someone who was an organizer of the union and he told me that those people receiving pensions had nothing to worry about. So, whether they are still getting pensions or not, I don't see them any more so I could not tell. After so many years of service, there was a certain amount of money coming to us which we did receive.

Mr. ORIOL. May I ask what department store this was?

Miss MONTOBY. This was Namm-Loesers in Brooklyn.

Mr. ORIOL. Do you have any information on how many department stores are now unionized or was yours the exception or is that pretty much the rule in New York City?

Miss MONTOBY. I really think it was the exception, so far as I know.

Their pension system, as I say, was a company plan. Now, I know there are stores in New York and most of them have dealings in the pension system. I know Saks and Macy's, Gimbels, Sterns. I know Bloomingdale's has a pension system but I am afraid that is going to be Allied Stores; that might be a company pension.

Mr. ORIOL. Do you have the feeling there will be closings of a lot of other department stores in the central city downtown? In the boroughs, too?

Miss MONTOBY. No; I would not think so because stores are always popular and you need them. I don't think there is any fear of them folding. They are just going along with the trend today. Pensions is a thing that is involved in contracts today and I guess that goes with the cost of goods and things.

Mr. DANSTEDT. You know, I think Mrs. Macdonald might be a good person to sort of wind up because when I heard some description of her plan—I am interested in Dr. Schulz's reaction—I felt that it demonstrates what an innovative and forward-looking employer or school system can do.

Mrs. Macdonald.

STATEMENT OF MRS. MacDONALD

Mrs. MACDONALD. Well, going back to this survey that Mr. Beall spoke about that the State Teachers Association made, of course all the returns from Montgomery County came back to us and we sent them out. At that time, we had about 374 members all over the United States. We sent this questionnaire to all of these people.

When those questionnaires came back, they were not signed; they were anonymous; and I was just confounded to see what some of these people were receiving as their State retirement. The average check was about $250 a month, and you can imagine trying to live in Montgomery County on $250 a month.

Many of them were receiving less than that because they had less years of service, but there were only about four or five of those teachers who had retired at that time who were receiving $400 or more. That was the maximum and there were very few of them receiving that.

So, you can see that the teachers at that time could not possibly have lived on that retirement income pay by any manner of means.

About this time, the board of education came to the same conclusion so they took out a variable annuity with Aetna but, unfortunately, this was only made available to the teachers who were still working; the ones who had already retired were just left out completely.

It is possible now for a teacher to retire in Montgomery County with a much higher State retirement, something like $600 a month, because the salaries have all gone up since then, and then to get this annuity on the side which will amount to anywhere from $150 to $300 a month, depending upon the length of time they have contributed to it. Of course, the teachers had to contribute a fairly high percentage of their salary towards this new annuity.

So, at that time we went to the board of education, the retired teachers did, and told them we thought they should make that retroactive. Well, I realize it would cost a great deal of money because we had no way of contributing; I mean, they just deduct this contribution from the checks in the office in Rockville. So, they didn't do that for us. They could not do that; that was too expensive.

But they did agree to come up with a check for us that would represent a 1 percent increase in our State retirement for each year that we have been retired. That means, for instance, if a teacher had been retired 20 years, she would receive from the county a check for 20 percent of her State retirement fund. So, we have had some relief there but we still don't have the ecalator clause and we are still on a fixed income, those people who are retired.

Everyone who has retired since January 1, 1968, comes under this new annuity, this variable annuity, so that they do have an escalator clause to take care of the increased cost of living. But the ones who had retired prior to that time still do not have any—well, we do in a way, because we get 1 percent increase each year, but the 1 percent increase each year is not keeping up with the cost of living, I can assure you.

So, actually the teachers in Montgomery County, if we didn't have the State retirement and Social Security and a county check, we just would not be able to get along. I know that there are many of them who have had their standard of living reduced because they simply can't keep up with it.

So, we are actually trying to get the State to ask for this variable annuity and see if we cannot come up with something there. The state made a study and they talked with Aetna at that time and two or three other insurance companies and they were assured that if they expected to have a modern, up-to-date retirement system that they would have to make it a variable system. But this is the point. Actually, I know that no teacher in Montgomery County could possibly live on the State retirement alone.

Costs of Suburban Living

Mr. Oriol. Mrs. Macdonald, people will probably ask you if Montgomery is so expensive, why do people continue to live there trying to get along on retirement income? The committee deliberately held a hearing in a suburban county in New Jersey which is also known as a fairly wealthy county and we found one woman who was paying more than half of her $1,700 income for property taxes. Since then, we have received another report from a suburban county in New Jersey where a woman's taxes amounted to more than her income.

One of the reasons that people persist in hanging on to the home they may have bought 30 years ago and they were paying taxes of maybe $70 or so and now it is in hundreds of dollars, they don't want to leave their home; it is where they raised their children and it is what they know.

But, in addition, there is also the problem of finding alternative rented housing if you do decide you are going to move out.

Another thing we discovered is that there are people who have to move because of high taxes. If they move to another community, and the suburbs are all clogged up with small communities, they don't meet residential requirements.

Do you find that sort of difficulty even in Montgomery County?

Mrs. Macdonald. Well, yes. I think that is quite true. There are a lot of people who want to stay there but they stay for different reasons. Now, I know that one reason we are staying there and not moving to a place where the cost of living is less is because the family home is there and Mr. Macdonald's sister who is unmarried is there by herself and we feel that there should be somebody around to make contact with her and keep track of her.

And I am telling you we are beginning to feel pretty much this business of the pinch because we had an increase in our rent last September and that was because the county taxes went up. Then when the water bill goes up, electricity goes up, all the rest of the things, and if they have to raise the tax again in Montgomery County, we are due for another increase in rent.

So, just about when something comes along, this increase in Social Security will probably take care of the increase in rent but it is immediately swallowed up.

Mr. BEALL. See, in our case, we lived in Baltimore City and moved to Howard County to get away from it and got right back in it again.

Mr. DANSTEDT. Mr. Oriol, I don't know whether any of the other members of the panel have any additional comments to make.

We do appreciate this opportunity to make these presentations. We appreciate the contribution Mr. Schulz has made to this particular subject and certainly appreciate the interest that the Senate Special Committee on Aging has shown.

Mr. ORIOL. We thank you.

Once again, we repeat, the reason we began the hearing in this way was to get just this kind of testimony.

Thank you very much.

Mr. DANSTEDT. Thank you.

Mr. ORIOL. The next witness is Mr. Nelson Jack Edwards of the United Auto Workers, accompanied by Mr. Willard Solenberger, assistant director of the Social Security Department of UAW. Mr. Edwards is a Board member-at-large of UAW.

So everyone can get some idea of our timing here today, the witness list shows another witness, Mr. Bernstein, and the Department of Labor.

We have received word from the Department of Labor that they will not have a representative here, and we will comment on that later.

So, we will push through to complete our full witness list until we take a lunch break.

Mr. Edwards, we are delighted you could come from Detroit today.

STATEMENT OF NELSON JACK EDWARDS, UNITED AUTO WORKERS ACCOMPANIED BY WILLARD SOLENBERGER, ASSISTANT DIRECTOR OF THE SOCIAL SECURITY DEPARTMENT OF UAW

Mr. EDWARDS. Thank you, Mr. Chairman.

My name is Nelson Jack Edwards, board member-at-large of the United Automobile, Aerospace and Agricultural Implement Workers of America.

In my capacity, I have the principal responsibility to represent the men and women who work for many of the major suppliers to the auto industry and for many companies in the foundry and die-casting industries.

It is my pleasure to appear before this committee on behalf of these workers and on behalf of all the 1.7 million members who make up the UAW.

My prepared statement indicates the UAW's deep concern for the effectiveness of both the public and private retirement systems, and importantly points up the necessity of considering the interrelationship between the two sectors.

With the committee's permission, I would like to submit my written testimony for the record and then to orally summarize that submission.

With me I have Mr. Willard Solenberger, assistant director of the UAW's Social Security Department, and the union's principal consultant on pensions. After my brief oral remarks, we will both be willing to answer any questions you may have with respect to the UAW's pension plans or any of the suggestions I will describe.

I recognize that this committee is presently concerned primarily with assessing the role and adequacy of private pension plans in this country. I know, too, that you have previously investigated many of the problems, both economic and social, which our older citizens face. I have, therefore, attempted in my prepared testimony, to limit my remarks to the areas you are currently investigating.

It is most difficult, however, to do that because the problems of aging are so intertwined. This is especially true of private pension plans and the Social Security program. Many of the benefit areas found in UAW pension plans have resulted from our attempts to provide for our members adequate levels of protection which are not available through the public program.

For instance, our pension plans have allowed for permanent and total disability retirement since their inception in 1950. It was not until 1956 that the public program recognized the need for this protection. Similarly, we provide a "Special Early" retirement benefit to protect the older worker who is forced to retire by technological displacement or plant closings. Although we have repeatedly called for the public program to recognize this need, we find today that such a worker must look only to his UAW-won benefit for protection.

The benefit levels provided by private pension plans must also be assessed by viewing the whole retirement program. Even though social security benefits have been legislated upwards several times since 1950, they are still inadequate.

As I point out in my testimony, these increases have simply enabled social security benefits to play a game of catch-up with inflation—they have not resulted in widespread improvement in the economic well-being of the elderly. They have in no way allowed the retired worker to enjoy his fair share of the growth in economic abundance.

Many private plans, including those negotiated by the UAW, have had to try to assume this responsibility.

Because the function and scope of private pension plans has expanded so rapidly, we who are concerned with assuring the adequacy of the whole retirement structure have sought to have the Federal Government legislate minimum standards of structure and operation of private pensions.

In addition, we seek to have the Federal Government assist private plans meet their responsibilities or, recognizing the limitations of the private sector, legislate supportive measures.

Tax Treatment Proposals

Present Federal policy encourages establishment of private retirement plans primarily by allowing favorable tax treatment. In return for such treatment, very little is required. I am proposing that considerably more be required. For instance:

(1) All qualified pension plans should be required to meet a reasonable standard of funding. This would at least assure an intention by the employer to provide assets at some point in time capable of fulfilling the plan's obligations.

(2) Approved plans should be required to include a provision whereby employees who terminate employment or otherwise leave the covered group after a minimum of 10 years of service, retain their ability to receive their accrued retirement benefit when they attain retirement age.

(3) Clear guidelines on the fiduciary responsibility of individuals and groups entrusted with assets of pension funds should be established by the Federal Government, which standards would have to be met.

(4) Requiring private plans, to the extent that eligibility and benefits are based on service, to recognize all service with the employer.

Additionally, new Federal legislation or revisions in existing legislation are needed in several areas to assist private plans to discharge their obligations.

(1) First, and foremost, we urge establishment of a broadly based government program of pension reinsurance by which workers will be assured of receiving promised retirement benefits in the event of termination of their pension plan.

(2) Second, it would be desirable to have the Social Security Administration maintain a register of private-plan participants separated from their employer with vested rights. This would promote better recordkeeping by private plans and permit the Social Security Administration to notify these employees, when they later file for social security, of their vested private plan entitlements and where to apply for them.

(3) As an extension of this idea, the Social Security Administration could—with respect only to terminated pension plans—provide a fund-pooling mechanism to facilitate disbursement of deferred vested benefits for which funds are available at the time an employer ceases operating.

(4) Finally, we urge that the Federal Government issue purchasing power bonds which private plans could purchase to enable them to provide realistically "inflation-proofed" pension benefits. This would be especially useful with respect to vested deferred benefits due from terminated pension plans.

There is also need for comprehensive study to determine methods by which public policy can stimulate the growth of private plans among smaller employers. My prepared testimony relates one encouraging mechanism which the UAW was instrumental in developing. This is the National Industrial Group Pension Plan.

AREAS OF PROTECTION

My prepared testimony also points to several areas of protection in which private plans—specifically, at least UAW plans—are attempting to meet the needs of workers in the absence of similar benefits or, at best, in the presence of inadequate benefits in the public sector. Among these are:

(1) The problems associated with forced unemployment or underemployment—or, conversely, forced early retirement—of older workers by reason of plant closings, technological displacement, or failing health.

(2) Recognition that there is a changing national attitude towards voluntary early retirement. Our experience, since the introduction of supplemental early retirement benefits in 1964, has been favorable. In fact, we are hopeful that we will be able to negotiate later this year significant expansions of that program. Social Security, however, does not encourage voluntary early retirement. At the very least, it ought not discourage private plans from providing earlier retirement through its existing rigidities.

(3) The financial problems which exist for the older widows—both before and after "retirement age". We need to provide more meaningful widow's protection in the public program so that surviving spouses of retirees and older workers can avoid a mere subsistance level of living. Between our UAW negotiated group insurance program and survivor protection under our pension plans, the UAW member has a relatively good level of protection, but it is not adequate. In large part, it is inadequate because the public program is not adequately sharing the responsibility.

In conclusion, it is my hope that these hearings will enable you to judge the efforts many private plans are making to provide a decent standard of living for retired workers.

I hope also that you will recognize that the private plans cannot adequately discharge the responsibilities they have assumed without the assistance and support of an effective public policy directed toward putting greater assurance behind the promises made by the private plans.

Thank you for the opportunity of appearing before your committee, Mr. Chairman.

We are prepared to attempt to answer any questions you may put forward.

(The prepared statement follows:)

PREPARED STATEMENT OF NELSON JACK EDWARDS

The UAW is presently celebrating a major milestone in its history—the 20th anniversary of our pension plans with the automobile companies. Our October 1949 agreement with the Ford Motor Company provided for the establishment of a pension plan and in 1950 the first retiree left the plant. During the past twenty years more than one-quarter million UAW members have retired and received over $1 billion in benefits from our negotiated plans. We now have 235,000 retirees receiving benefits and almost $4 billion in assets to secure these benefits.

In 1949 we recognized the need to design our retirement program as complementary and supplementary to the public program. We remain today committed to that concept of securing retirement benefits, because it represents the only rational approach. The UAW continuously has advocated making the Federal program of Social Security a viable program capable of providing meaningful levels of retirement security.

Even after the modest increases which will soon be paid, the Social Security program will remain far from adequate. It is a national shame when, at the end of 1968, 17% of all retired workers were asked to live on no more than the minimum benefit of $55; when over 1 million citizens receiving Social Security also received Old Age Assistance payments.

There is no question of the need, and there is no question we possess the resources to totally recast Social Security into its originally intended role of continuing a decent and reasonable level of living after retirement. In November, 1969, Walter Reuther recommended to the Ways and Means Committee of the House of Representatives a number of significant improvements to the public program which in large measure would accomplish this goal. Not only would it be redundant to repeat here all those recommendations, it would detract from the present task of this committee which is to examine public policy implications of private pension plans.

It must be recognized, however, that because the public program has failed to provide adequate benefit levels for the typical industrial worker and has totally neglected many of their other needs, private plans have had to carry an undue burden. Largely because private plans have been forced to assume these responsibilities, the public is now faced with the problem of assuring adequate performance of the private plans.

The UAW has attempted a number of unusual and innovative provisions in pension plan design. As a result, there exist for our members areas of protection and benefits not included in other private plans nor available to our members and other workers through the Social Security program. These provisions have been responsive to problems confronting our membership, but are indicative of the same or similar problems faced by workers in general. The description of several such features of our plans will indicate these problems and highlight the potential of private plans to provide meaningful protection. Additionally, we will comment on the need for a revised public policy towards private pensions.

THE DISPLACED OLDER WORKER

Many older workers face dislocation from their jobs by technological changes, plant closings or declining health which leaves them incapable of performing work. Young workers too may find their lives disrupted by technological change or plant closings, but they at least possess a greater ability to find new employment and to accrue additional retirement benefits, even if it requires retraining. The need for effective protection of the private pension entitlement of the younger worker in such situations will be discussed subsequently.

The more serious problem is faced by the older worker—the man in his late fifties who has worked for the employer for 20 or 25 years—who in essence is *forced* to retire early. Social Security affords him no benefit before age 62 and, from his point of view, appears almost to inflict punishment. When a benefit is payable at age 62, it will be reduced because of his early retirement and will be computed on the basis of his lowered earnings or years of no earnings.

To meet this need, UAW plans with larger employees generally provide for "Special Early Retirement." In situations of plant closings, permanent layoffs or chronic ill health (short of permanent and total disability), workers age 55 or over with 10 years of service may avail themselves of this provision. They receive a lifetime benefit equal to their normal retirement benefit (without actuarial reduction) plus an additional benefit approximating Social Security which is payable until they reach age 65 or, if earlier, receive Social Security disability benefits.

There is much in this concept, we feel, to recommend its inclusion in many private pension plans. Additionally, it concerns a widespread problem for which the public program should consider alternative solutions. *Short of providing a full benefit analogous to disability, it could, for instance, provide a hold on the computation period like the old "disability freeze." At the very least, Social Security should equate its treatment of men and women by allowing men who retire at age 62 to have their years of no earnings between age 62 and 65 disregarded.*

RECOGNIZING LESS THAN FULL SERVICE

All private pension plans must establish rules for determining service under the plan. At first glance this might seem a somewhat inconsequential problem. However, based on our bargaining difficulties in this area, it most assuredly is not. Does service accrue when a worker is ill? When he is laid off? If so, for how long? Does the service an employee had with the employer prior to his present period of employment count even though it wasn't vested? What about the years he may have worked at a different location or for a different division?

The UAW has continuously sought and, in large measure, has achieved recognition of all periods of work with the employer for pension purposes. Our plans also include as service, subject to some limitations, periods of non-work resulting from illness and layoffs. Importantly, we have achieved reinstatement of prior periods of service which were lost under the old rules and retroactive crediting of service on the basis of the new rules.

Because we know from our own experience the desirability and importance of recognizing service in pension plans on the broadest possible basis, we fully endorse the concept of including in Federal legislation on private pension plans requirements for full recognition of all service.

THE PLIGHT OF WIDOWS

The working paper prepared by Dr. James Schulz for this committee, rightly includes as a key issue the area of survivor protection.[1] The Social Security program essentially recognizes only two kinds of widows. Widows, generally younger, with children still under their care are provided with relatively significant benefits. Older widows, those of retirement age, are also afforded some protection; but it is woefully inadequate. At the end of 1968 more than half of the aged widows and widowers (53.2%) were receiving less than $90 monthly and almost two-thirds (63.3%) were receiving less than $100.

Many private plans also make available some form of income for the survivors of retirees and workers, but the adequacy of these provisions is highly limited. For instance, of the 44 plans referred to in Dr. Schulz's paper as containing survivor protection, 36 plans provided either lump-sum death benefits or monthly payments for no longer than five years.[2] While such provisions may assist the older widow in meeting immediate expenses and making an initial adjustment, they obviously fail to provide longer-run protection.

Survivor protection is an essential component in the UAW's pension program. Improved and expanded by the last several negotiations, our major pension plans now protect the surviving spouses of both retirees and older workers by the following provisions:

(1) Retirees are automatically covered by a provision which continues 55 percent of the retiree's monthly pension to his surviving spouse for the remainder of her life. In availing himself of this protection the retiree foregoes only a very small (a fraction of the actual cost) amount of his pension.

(2) Survivors of workers who die before retirement but after their eligibility to retire voluntarily (as low as age 55), are entitled to receive the same survivor benefits they would have received if the worker had been retired at his death. This benefit is paid regardless of the survivor's age and is paid for the remainder of her life.

In addition, such survivors continue to receive comprehensive hospital-surgical-medical coverage at no cost to them.

The original and continuing emphasis of this pension survivor benefit was supplementary to Social Security widows benefits. However, because it was payable regardless of age it represented for many widows their only income. Recognizing that the public program, and to a lesser extent our own program, neglected the younger older widow—the woman in her fifties whose children were grown—we negotiated special insurance protection. Under our "Bridge" benefit (so called because it bridges the gap until full Social Security

[1] "Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions" U.S. Senate, Special Committee on Aging, 91st Congress, 2d Session, pps. 32–35.

[2] *Ibid*, p. 34.

widow's benefits are payable) a widow age 50 or older receives $150 for any month for which she is not entitled to mother's benefits under Social Security until she attains age 62. Thereafter, she receives a Social Security widows benefit and may receive from our negotiated pension plan the survivor benefit described above.

The results of an intensive survey of survivors of auto workers by the Michigan Health and Social Security Research Institute, point to the serious inadequacy of survivor benefits under Social Security.[3] Of a representative sample of widows included in the study, only approximately 14 percent were eligible for Social Security by reason of their age; whereas 44 percent were between the ages of 50 and 60, the ages where employment opportunity is diminished and the likelihood of being eligible for mother's Social Security is minimal.

EARLY RETIREMENT

Of all the provisions contained in the UAW's retirement plans, the one which has received the most attention, by our members as well as pension planners, gerontologists and others concerned with retirement plans, is our early retirement program. The program can be briefly described as:

(1) Workers age 60 with at least 10 years of service and workers between age 55 and 60 whose age plus service total at least 85 may voluntarily retire early.

(2) A lifetime monthly basic benefit of $5.50, $5.75 or $6.00, depending on their job/wage classification, for each year of service is payable. For retirements before age 62, this lifetime benefit is reduced.

(3) For months before age 65, a supplement to the basic benefit is payable which raises the total monthly early retirement benefit to as much as $400 for a worker over age 60 with 30 or more years of service.

Prior to implementation of this program in September 1965, we were well aware of the trend among our members toward earlier retirement. In the early 1950's, voluntary retirements before age 65 under our plans with the "Big 3" automobile companies was approximately 5% of all age retirements. By the early 1960's, approximately one-third of all age retirements were occurring prior to age 65.

The introduction of the early retirement Supplemental Allowance feature greatly accentuated this trend. Our experience under the program through 1968 for the "Big 3" manufacturers is summarized below:

Year	Total age retirements	Percent of total age retirements occurring at — Age 68 or over	Age 65 to 67	Before age 65
1965	17,643	4	28	68
1966	13,624	4	24	72
1967	9,129	5	24	71
1968	10,570	5	21	73

Aside from the fact that the percentage of early retirements since the program is more than double the rate before the program, the increase in the number of retirements is equally significant. In the five years preceding the introduction of the early retirement supplement, nondisability retirements averaged only 6300 annually; less than one-half the average annual number for the four years included in the table.

We are convinced, and these statistics indicate, that many workers will choose to retire at an earlier age if they are given an opportunity which does not impose financial hardships. A study by the University of Michigan's Institute for Social Research of UAW members covered by the early retirement program led the authors to similarly conclude ". . . that a substantial majority of the workers either have responded or plan to respond positively to the availability of an early retirement program, and that a preponderance of those who have already retired seem eminently satisfied with their retirement."[4]

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[3] Eugene Loren and Thomas Barker, *Survivor Benefits,* Michigan Health and Social Security Research Institute, Inc., Detroit, Michigan, September 1968.

[4] Richard Barfield and James Morgan, *Early Retirement—The Decision and the Experience,* Ann Arbor, 1969, p. 50.

We know there will be an increasing desire for and tendency toward earlier retirement by America's workers. It can neither be judged as a temporary phenomenon nor a peculiarity of only certain kinds of workers or of workers in certain industries. Since 1961, when Social Security early retirement was extended to male workers, nearly one-half of benefit awards to men have been to those retiring before age 65.

In fact, the UAW is beginning to develop the improvements we hope to achieve in bargaining with the automobile companies later this year and high among these will be the subject of early retirement. Throughout our membership there is unprecedented feeling that improvement in our early retirement program is needed. Whether young or old, they recognize that after 25 or 30 years of the dulling and repetitive tasks of production line work an option to retire is earned. Similarly foundry workers, who I am personally priviledged to represent, and other such workers, who have spent long years working in dirty and debilitating surroundings deserve and often require early retirement.

Just as our present early retirement program makes available meaningful early retirement to those of our members who desire it, we believe such a choice should be available to all workers in this country. Certainly our society has the capabilities to make voluntary retirement at earlier ages possible so that men and women may enjoy a longer retirement period. We feel the time has arrived to seriously question the myth that age 65 is the "normal" age for retirement and retirement before that age is, therefore, somehow "abnormal".

Presently, the Social Security benefit structure, in fact, acts as an impediment to experimentation with early retirement in the private sector. Under the UAW's program, for instance, the worker who retires early, even though his earnings may always have been at the Social Security maximum, will receive less than the effective maximum because he must use his years of retirement as "drop-out" years in the computation formula. As pointed out before, men at least ought be able to have the years between age 62 and 65 excluded from the computation period, and, if we are to encourage voluntary early retirement, consideration should be given to devising a scheme whereby those who are withdrawing from the labor force may preserve more of their public program entitlement.

PRIVATE PENSIONS FOR SMALL GROUPS

If there is to be continued expansion of private pension coverage to the projected figure of 42 million workers by 1980[5] there must be new and innovative methods developed to enable small groups to obtain coverage. In his discussion of the problems of establishing pensions for small groups, Dr. Schultz includes the relatively high cost of establishing and maintaining a pension plan. This cost problem is well indicated by the following statement which was part of a talk to insurance agents encouraging them to get into the employee benefit field:

"Unlike all other situations that you can cover with insurance, in the pension field alone do we pay the producer more commission on the little cases than we do on the big ones. Your insurance companies would probably pay you around $2,000 first year commission on that big pension case . . . but more than likely the commission would be around $3,000 or $4,000 on the little case . . ." [6]

The UAW has been concerned with this problem because while we are usually thought of as dealing with some of the world's largest corporations, we also represent thousands of workers in small shops of less than 100 workers. Like many unions, we have used multi-employer plans as a solution to the cost and other problems inherent in establishing pensions for smaller groups. Multi-employer plans are generally established by one union dealing with an association of small employers who are related by similar products, services and/or geographic area. Such arrangements have enabled many workers to gain coverage of a private pension plan, but expansion of such plans is obviously limited.

[5] President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, "Public Policy and Private Pension Programs," January, 1965, Appendix A, Table 1.

[6] The National Underwriter, "Employee Benefit Field Seen Ripe for General Lines Producers," August 6, 1966.

The UAW was a prime mover in the establishment, in 1966, of the National Industrial Group Pension Plan (NIGPP) which greatly broadens the multi-employer concept. This plan was designed and developed by representatives of several unions, insurance companies and pension consultants. It establishes a single plan into which workers throughout the country, represented by different unions and who work at various jobs in differing industries could join. Their commonality is that they work for relatively small employers. This plan grew out of extended discussions among unions and with representative small employers.

The NIGPP was specifically designed for small employer groups and features low expenses, simplified administration, benefit and contribution flexibility, the ability to include new groups equitably and without anti-selection and, by a reinsurance feature, protection of benefit expectations. By November 1969, 11,385 workers in 1,963 different employing units were covered by the plan.

Undoubtedly, this particular plan will not significantly affect national statistics on private pension coverage, but it demonstrates that creative technical capabilities are available and waiting to be tapped. We are convinced that stimulation of broad-based multi-employer plans similar to the National Industrial Group Pension Plan would provide the needed mechanisms to overcome many current difficulties in establishing retirement plans for workers in small employing units.

Clearly there are a number of areas in which private pension plans are undertaking to provide enhanced retirement security. As noted, there is need to examine the public program to insure that the basic needs of all workers are being met, and there is need for public policies encouraging growth of and experimentation in the private pension field. Additionally, there is need for Federal legislation to give reasonable assurance that private pension plans are capable of fulfilling their announced intentions.

The growth of private pension plans during the past twenty years has been phenomenal. From 1950 to 1968 the number of workers covered by private plans nearly tripled—from 9.8 million to 28.6 million. This is nearly one-half of all private wage and salary workers. With such vast numbers of people relying in large measure upon the ability of private plans to meet their benefit committments, it is necessary and important to recognize that strengthening of private plans is in the public interest.

MINIMUM VESTING REQUIREMENTS

Earlier in this statement I discussed the problems of the older worker who finds himself forced out of work by illness, technological displacement or a plant closing. We need also to secure the pension entitlement for the younger worker who finds himself displaced from employment. Additionally, private pension plans should not be a device by which workers of any age become tied to service with a single company. It is essential, in our highly developed technological economy that there be a high degree of labor mobility. Workers affected by the vagaries of employment opportunities should not have to also suffer the loss of their expected retirement benefits nor should workers who seek new and better employment be forced to have their decision affected by the loss of retirement security.

The report of the President's Committee on Corporate Pension Funds and other Private Retirement and Welfare Programs in 1962 pointed to the necessity of requiring some form of minimum vesting requirement if private plans were to serve the ". . . broad social purpose justifying their favored status." It is in our judgment not necessary to require a vesting provision that represents an onerous cost burden. Conversely, any vesting with a threshold which is unduly high is pointless. It is also reasonable to require some attachment to the employer before pension benefits become vested, thus properly leaving the public program with the responsibility of providing benefits for short periods of employer attachment. But after an employee has worked for an employer for as many as ten years or has participated for ten years with others in the group, it is most reasonable that he be entitled to retain his equity should he leave the employer or the group before retirement age, whether voluntarily or involuntarily.

For these reasons we have consistently favored the concept included in several proposed Congressional bills which called for establishment of a vesting requirement for private plans. It is necessary, however, that any such legislation carefully consider which benefits provided under a pension plan will be subject to such a vesting requirement. It does not seem necessary to require vesting of benefits payable under a retirement program other than those intended as the life income benefit which commences at normal retirement age and any available post-retirement survivor benefits.

Instituting a vesting requirement may require a reasonable transition period, but vesting of only future service would unnecessarily limit the significance of the protection for a large segment of workers—those with a large part of their total working years already invested in jobs with their present employer.

RECORDING OF VESTED BENEFIT ENTITLEMENTS

I also suggest that consideration be given to having the Social Security Administration act as a central clearing house for the recording of individuals with a vested entitlement to a pension benefit. Such a procedure, which I'm certain would not add materially to the costs of the present record keeping functions of Social Security, would enable an individual who may have moved several times since gaining the vested benefit to more readily locate the employing unit which also may have moved in the intervening years.

An additional mechanism which the Social Security Administration might well provide would be a reservoir to receive funds from terminating trusteed pension plans with respect to vested benefit entitlements. This, of course, would be possible only to the extent funds are available; either from the assets of the terminating plan or through a Federal program of private pension reinsurance.

FUNDING REQUIREMENTS

Providing vesting of a pension benefit to an employee is, of course, of little value, if when he reaches retirement age he discovers there is no company nor fund from which he can receive his "vested" pension benefit. Similarly, the promise of a pension made to the employee who continues working for a company is of no value unless he is able to draw his benefit. Indeed the primary question for all pension expectations—whether of the already retired, the active employee or the former employee with a vested right—is the essential security of that pension promise.

Our retirement plans have from their inceptions required funding by contractually obligating the employer to pay current costs of accruing benefits, with amortization of past service liabilities over periods generally not exceeding about 30 years. We have emphasized such funding as basic to avoiding "paper promises." Greater security could be achieved by faster funding, such as up to the maximum permitted by IRS regulations (approximately 10-year amortization). The cost burden of very rapid funding must, however, be weighed against its effect on otherwise attainable and needed benefit levels and the fact that pensions in effect result from deferring a current wage payment. In essence, we have sought to strike a balance between the likelihood of an employer's continuing existance, meaningful levels of benefits, available contributions and our concern with pension security.

We see funding, including regular amortization of past service liabilities, as the best available mechanism for guaranteeing at least a portion of the benefit expectations. Adoption of some minimum Federal funding standard to be met by all private plans would add greatly to workers' retirement security and would be in keeping with professed objectives of responsible pension planners.

PENSION REINSURANCE

An analogy might be drawn between funding a pension plan and liquidating a private debt. An employer beginning a pension plan which recognizes, and provides benefits for previously rendered service, agrees to pay off that liability over time. Unlike most private debts, however, should the employer cease to exist before payment of the debt he typically bears no obligation to complete payment.

In such situations, some and often a large portion of the workers whose pension expectations are tied to amortization of the debt are going to lose a retirement benefit they thought they had. In our complex, interdependent economic society, no company and no group can be considered immune from the possibility that it may cease to exist. Each day newly developed products replace current goods, new technological advances replace present methods of production and some employers are increasing employment while others are permanently closing the plant gates.

This uncertainty of a business continuing may be the price we must pay for progress, but it need not and should not be paid by inflicting on affected workers the penalty not only of a lost job but of a lost pension expectation. Certainly from the fruits of this progress which we all enjoy, assurance can be given that the security of pension benefits will be maintained.

Appreciation of the variety of reasons capable of causing a cessation of business and, hence, termination of the pension plan applicable to the employees, can be gained from a quick summary of several UAW negotiated pension plans which are presently in the process of being closed out. One company suffered a disastrous fire last year which totally destroyed its facilities. Although insured against the loss, the company recently decided against attempting to re-establish their business. Another firm recently gave notice of termination of their operations about one year after having being-purchased by a much larger company, We, of course, have not been made a party to this larger company's rationale for their decision. A third, very small firm, closed down its manufacturing operations recently because they felt continued operations in their obsolete facility had become increasingly uneconomic. Because none of these three pension plans has been finally terminated, we can not yet fully assess how short the assets will be in meeting the plan's obligations, but we already know that none of the three have assets capable of providing fully for the liabilities.

To meet this most serious and pressing problem, we urge prompt passage of legislation to provide a Federal pension reinsurance program. During the last several years, various Congressional committees have compiled vast amounts of testimony on this subject. Much of this testimony has proved useful in refining the more recently proposed legislation by overcoming problems and objections associated with the earlier proposals. I am convinced that the time to publicly debate the advisability and need for reinsurance has past. The case for this legislation has been made. All that is now needed is the assurance that the legislation represents a technically sound and administratively feasible program.

FIDUCIARY RESPONSIBILITIES

Funding of private pension plans in this country is, of course, already well established. Recent figures released by the Securities and Exchange Commission indicate that the assets of private pension plans were over $15 billion at the end of 1968.[7] Of that $115 billion, $80 billion was being held in noninsured pension funds. Given magnitudes such as these, the long-term nature of investments required under pension plans and the need for sound investment practices of pension assets, great care must be taken to assure responsible handling of these funds. Any pension fund manager who uses the fund for personal enhancement or who risks the security of the fund by speculative investment must be held accountable for such actions. *Incorporation of enforceable standards of fiduciary responsibilities into Federal legislation is a much needed step.*

Such Federal standards are desirable so that plans which operate in a number of states will not be subjected to variable local standards and differing and overlapping procedures. Knowledge of an applicable single set of standards against which those in control of funds may be judged, and, should it prove necessary, a known means of enforcement would enable more effective scrutiny of fund operations than is now possible.

In connection with standards, however, let me emphasize that fiduciary responsibility should not restrict trustees or the parties to the plan for which the fund exists, from investing the assets in a manner which benefits society. The return on investment should not be the sole criteria on which investments are made. Decisions on investment of monies reserved for workers' retirement should give proper weight to this primary purpose, but can also take account of the present investment needs of the community.

For over ten years the UAW has advocated in negotiations the development of guidelines for systematically channeling, with proper safeguards, a portion of growing pension fund assets into socially useful investments. Use of these

[7] United States Securities and Exchange Commission, Statistical Series Release No. 2406, December 12, 1969.

funds to make available decent housing that workers can afford or to provide community facilities can enrich workers' lives before and after retirement. Such investments can be made without in any way weakening the basic integrity of the funds.

LOSS THROUGH INFLATION

Assuring through reasonable vesting provisions a worker's pension right in the event of job separation before retirement and moret secure underpinning of pension expectations by funding requirements and provision of reinsurance in the event of plan termination, still leaves the worker subject to a grave potential loss of benefits. This is the loss by inflation.

In the UAW, we have continually sought at the bargaining table to protect retirees from such losses by negotiating increases for the retirees. Moreover, we have successfully sought to have our retirees share in the advancing standard of living which they in their working lives built the foundation for. As a nation, we ought be able to maintain a reasonably constant price level, but we have not had much success. Those who must live on a fixed dollar income obviously suffer the worst hardship. This is not a problem which should be left to the private plans for solution. It is a problem created by the total economy and the public should be a party to the solution.

This nation cannot continue to allow elderly citizens who rely totally or primarily on Social Security, to suffer the erosion of benefits by inflation. Periodic increases which barely replace the loss is not an acceptable answer. We recommend that the purchasing power of Social Security benefits be maintained by automatic periodic adjustments of benefits reflecting cost of living increases.

Similarly, the public has the responsibility to make available a mechanism to enable private plans to maintain stability in their levels of protection. This could be accomplished by having the Federal Government issue purchasing power bonds, tied to increases in general price levels, which private pension funds could purchase to facilitate development of inflation-indexed pension provisions.

All my comments and proposals are based on a recognition of the duality of the retirement security system which has evolved in this country. Many of the problems outlined result from the relatively undisciplined and nonuniform growth of the private pension schemes. None of suggested legislation need nor should hamper continued growth of private pension plans. Indeed, correction of deficiencies and enhancement of the ability of private retirement plans to meet their objectives should have a stimulating effect on private plans, and in no way detract from their uniquely flexible character.

It is essential, however, to recognize that continuation and broadening of this dual system requires maintenance and expansion of the public portion. The Social Security program must provide an adequate basic level of retirement protection for everyone and thereby leave to the private sector only a supplementary function. Caution must be exercised to avoid usurpation by the private sector of the basic and necessary responsibilities of the public sector. Inattention to the adequacy of the Federal Social Security program, failure of timely modification of the public program to conform with our society's changing desires and attitudes toward retirement and underestimation of the nation's ability to provide decent retirement will seriously distort the balance of our total retirement system.

Mr. ORIOL. Mr. Edwards, thank you for a very fine statement. That is a major contribution to this hearing and the overall study of the economics of aging.

One question I would like to address to you right now is, we see stories about layoffs and actual shutdowns of automobile plants and I wonder whether you could give us an idea. I understand there is one shutdown in Texas that would affect about 300 workers.

When there is a shutdown of that sort, I believe you have vesting for 10 years for most.

Mr. EDWARDS. Correct.

Mr. ORIOL. Do you have any idea of the approximate length of service for the people in the shutdown plants? Is it usually more than 10 or less than 10?

Mr. EDWARDS. In most cases, I would say it is more than 10, but I have not traveled the country negotiating closeouts of pension programs, so I might ask my colleague, Mr. Solenberger, to answer that question for you, please.

STATEMENT OF MR. SOLENBERGER

Mr. SOLENBERGER. I think there is a tendency for the average service as well as the average age in the closed-out plants to be high.

One of the prime reasons why major operations are closed out is the superannuation of the plant and that also quite often involves a "superannuated" work force.

We have two other examples besides the Ford shutdown in Texas. Two major plants are currently in process of closing in Chicago and in both of those cases the work force includes hundreds of workers with 20, 25, 30, 35 and even 40 years of service, and the preponderant, the typical ages would be up in the 40's and a great many would be in the 50's.

Mr. ORIOL. So a person in his 50's, will he receive full pension?

Mr. SOLENBERGER. This is one of the areas where we see a particular deficiency in the social security program because a worker who is literally forced to retire early in this kind of situation has to wait, in the first place, until age 62 before he can get any social security and at that point he suffers the penalties of having no covered earnings since his plant closing. This enters into his social security benefit calculation, thereby pulling down the amount.

In such a situation, he may use up all the "dropout" years allowed by social security, so his whole life income under social security which is inadequate at best then goes down further.

To overcome this penalty somewhat, private plans can and most major UAW plans do have a special provision whereby at least from age 55 up the worker will go out not only with his full lifetime pension assured—no reduction in amount—but with a special supplement more or less approximating social security.

This supplement, of up to $150 in current contracts, is paid until age 65, on the theory that that is when a worker can get full social security. This can be an expensive proposition. For example, at one of the Chicago plants I mentioned, we have just computed the extra cost for about 260 workers who are in the late 50's, not yet 60, of giving them this added protection.

By "extra cost", I mean the cost over and above what it would cost to give them normal actuarially reduced pensions such as the pension plan would give them if we didn't have this special feature, and it amounts for this group of workers to $5 million.

Mr. ORIOL. $5 million?

Mr. SOLENBERGER. Which has to be funded by the employer.

We are a big union: this happens to be a big company. We ask them to step up to this responsibility. We expect the Ford Motor Co. in the Texas closeout to do something similar.

In the Texas situation, there are workers who are not yet 55 and who under our seniority provisions will preserve their right to grow into special early retirement eligibility at 55. So their problem at, say, 52 is to find some job for at least 3 years until they can claim this enhanced benefit, but the private plans should not be expected to meet the whole problem.

Our suggestion for the social security system would be at least to eliminate some of the penalty.

Mr. ORIOL. What percentage of work income is full pension income?

Mr. SOLENBERGER. I am afraid I don't——

Mr. ORIOL. Full pension income is not as high as work income, is it?

Mr. SOLENBERGER. Oh, no; by no means.

Typically, I think longer service workers will go out with an income of, say, $300 to $350 a month, and their incomes while working would be up around $600.

Mr. ORIOL. About half.

Mr. SOLENBERGER. Half or a little better.

Mr. ORIOL. They get maybe $100 more as the equivalent of social security?

Mr. SOLENBERGER. No; that is included.

Mr. ORIOL. That's included?

Mr. SOLENBERGER. Yes.

Mr. ORIOL. So a man can——

Mr. SOLENBERGER. He can get a base normal plus up to $150 as a makeup for Social Security.

Mr. ORIOL. So a man at, say, 53 or 54, 55, 56, he will go out at about half of what he was earning, and this is understood to be in the most favored circumstances, and the union, which has faced up to this problem, is trying to do something about it.

At our last hearing we dealt with employment aspects of the economics of aging. We heard other examples of how hard this sort of thing can hit and how long a person in this age range may go before he is able to find substitute employment.

One of the proposals discussed was that there should be a kind of a task force available, probably through the Department of Labor, to go to shutdown plants and see what they can do to link up the persons without jobs that may be in the area.

Do you see any kind of a task force action that might be possible on this pension question, or does it have to be limited to employment opportunities?

Mr. SOLENBERGER. Well, the problem is obviously twofold. Plant shutdown carries a double penalty for the workers involved. They have lost their jobs, and all too often, of course, have lost their pension rights.

The Studebaker shutdown in South Bend is one of the classic cases where both were involved, except for the workers over 60. In that shutdown the Federal Government did have something analogous to this task-force idea, and there was a concerted voluntary local effort, also, to attempt to have these workers absorbed into the community.

It might be of interest to your committee to know that following the Studebaker shutdown, certain parts of the Studebaker plant were taken over by other companies and operated, and some of the ex-Studebaker people were employed there. The foundry of the Studebaker plant was taken over.

Mr. ORIOL. We have two of the workers in the field, Miss McCamman and Dr. Sheppard, who were out there.

Mr. SOLENBERGER. This foundry operated for several years employing mainly ex-Studebaker workers. Just recently the company decided to go out of business and contract out the work. Once more the workers were out on the street having their jobs cut out from under them.

Once more I had the unpleasant duty of going to South Bend to work out the termination of a pension arrangement, which was not really a pension plan but did provide some cash severance benefits. So they had a small amount—not enough to purchase a car—on going out the second time. These are men who did not get pensions under the first shutdown.

INNER CITY PROBLEMS

This is a serious problem. It is highlighted also in one of the Chicago cases I mentioned, where the company said to some of the workers who are employed in this superannuated inner-city plant, "If you will move 50 miles to another plant we have outside Chicago, we will give you an employment opportunity there." I am talking about people with 25, 30, 35 years' service and up in age.

One of the problems, however, is that many of them are black and the community where the alternative plant is located is an all-white community with very expensive housing. Most of them feel that they cannot possibly make this kind of a shift and will stay in Chicago.

Mr. ORIOL. That is what the union is doing. Are you getting any help in these three shutdowns, the one in Texas and the other two, from the Department of Labor?

Mr. SOLENBERGER. No.

Mr. ORIOL. What would you like the Department of Labor to do?

Mr. SOLENBERGER. Well, obviously, help in getting these people into other employments. Some of them could possibly benefit from training programs. I don't know.

Jack, would you say for foundry workers there is a training opportunity for them, especially if they are middle-aged? Could the Labor Department do anything?

Mr. EDWARDS. I think the first thing the Labor Department could do is help cure the housing crisis that exists in the nation today, especially in situations where housing is unavailable because of your color.

This case, the Chicago situation, gives a glaring example of what kind of travel is involved to maintain employment with a company you have worked with for 25 years when you can't live within the vicinity where the plant is located. It could help us in that area.

Secondly, we have a plant closing where the foundry is involved, and we have asked the Department of Labor, inasmuch as we are operating on a grant from the Department of Labor where we are training some hard-core people, to permit us to train the foundry guys as a part of the multiple-complex operation in this particular plant, so they may transfer from foundry classifications to classifications of machine operators, assemblyline operators, et cetera.

To date the Department of Labor has not granted us the right to go ahead and train those foundry employees who are involved in this kind of situation. I am not critical of the Department of Labor as such, because I don't think they are responsible directly for any of our problems that we speak of here today.

You ask, what could they do to help us? And I am saying these are some of the things they could do.

Miss McCAMMAN. I remember when we were doing the South Bend project that we anticipated that one of our major problems was going to be motivating the older worker who had always worked for Studebaker and was now out on the street at age 55, 60, to find another job and to take training or take advantage of the placement opportunities that were available. It turned out to be such a problem as we had anticipated. However, with two strikes on these workers who have gone back to work in the foundry there and now are out again, I would think motivation would be a very great problem.

Mr. SHEPPARD. I would like to add a little bit to that myself. Going back to the Packard shutdown, as you are probably more closely related to (before we had all the new training opportunities) in 1957, 1956. We did a study when I was at Wayne State University showing that the men who got laid off at Packard and found a job and got laid off again were the most miserable ones in terms of not just economics but in terms of bitterness about our whole social system.

I can imagine that happened again with these Studebaker people.

I would like to ask you if you could speculate a little bit about whether you think some of the problems with the Labor Department might be that they don't believe in training people in their fifties. Also, the same question I want to ask of the UAW itself, would they be willing, do they encourage alternatives, do they allow for choice for a man who gets laid off at 52 or 53 to take retraining for a job instead of merely being told, "If you hang around for a few more months, we will get you some sort of subsistence pension"?

I am concerned about what people think about the trainability of people in their fifties.

ON-THE-JOB PROGRAM

Mr. EDWARDS. Well, I could very well answer for the UAW in this area because I am connected with its OJT training program.

We have no age limit as to training for new skills and new jobs, at all. This is evidenced, I think, in the fact that we negotiated a provision in our 1967 contracts that said if a person was hired after 55 years of age, when obviously he could not earn minimum pension credits before 65 under our present program, he would nevertheless be eligible for negotiated hospital-medical benefit insurance to cover him and his wife subsequent to age 65 as long as they lived.

When we asked for training opportunity for the foundry group, we had no reference to age. If a fellow was healthy and could adapt himself to certain types of change, we were prepared to assist him in that. We have no age limit. That is the direct answer.

Mr. SHEPPARD. I am glad to hear that.

Mr. ORIOL. May I ask, Mr. Edwards, or Mr. Solenberger, whether a prolonged layoff will have an effect on the pension benefits of a worker?

Mr. SOLENBERGER. It will, of course, because generally when he is not working, he is not accruing pension credits. Typically, under our plans he may accrue credits or layoff for limited periods only. So to the extent the pension is service-based, and our pensions are—a prolonged layoff means lost benefits. He is a year older, but he does not have another year's credit.

If he is at an age where he can optionally retire early, and the layoff looks as though it is going to last indefinitely, he may take a pension after unemployment benefits ran out. Sometimes, if the whole plant isn't down, but part of it is down and some people are permanently laid off, we put into effect the special early retirement arrangement which I described for closed plants.

I think for the man in his late fifties, with some retraining and some special effort, there's a chance for further employment, but possibly not as good employment as he had before.

One of the points that we wanted to bring out here strongly was that we feel the social security system is not only not doing anything positive about this problem but is actually reacting negatively to it in the areas of the penalties incurred by the present dropout rules. We have not even reached the point where men at 62 are treated in the same fashion women are. For a woman there is no penalty for being out of the labor force after age 62. There is a penalty for men. This is one easy reform.

A further one would be to protect social security rights through something analogous to the old "disability freeze," so that older workers who are dislocated by economic factors—which possibly are part of the price of economic progress but which hit the individual hard—would have their best wage-record frozen. So, if by a combination of special employment efforts, private pension features and other things we can carry the worker through to social security retirement age, he will not have a lifetime penalty of reduced social security. Such action would be possible without lowering the social security age to 55, which obviously, if applicable generally, could be a very expensive thing which many people might question.

We should at least reform the social security system so it is not hampering the efforts that may be made in the private sector to solve some of these problems.

Mr. ORIOL. Did you have a question, Dr. Schulz?

Dr. SCHULZ. Yes. I have a number of questions with regard to the economic impact of the early-retirement trend.

What is the earliest age at which one of your members can retire now?

Mr. SOLENBERGER. 55.

Dr. SCHULZ. So that given average life expectancy as it exists now, that would mean that a worker retiring at that age had an average life expectancy of over 25 years or nearly a quarter of a century.

What would his private retirement pension look like after 25 years, relative to the average standard of living of the rest of the economy at that time?

Mr. SOLENBERGER. Obviously, he would do very poorly. Of course, this is one of the big problems facing the private field—how to update pensions. It involves not only inflation erosion, but also the need to keep in line with the general standard of living.

The UAW has taken this problem to the bargaining table. I believe we are one of the few unions that has repeatedly negotiated increased pensions for our retirees. We have people who retired in 1950 with a pension based on $1.50 per year of service who today, through renegotiation of that pension, are getting $4.80 for the same years of service. This is all past service and means, of course, an additional past service cost which has to be funded. But we feel that it would be completely unrealistic not to consider the needs of the nearly quarter of a million workers who are retired at present from UAW plants when we come to the bargaining table to improve pension formulas.

Very few private plans have automatic pension escalation. There are some variable annuity plans, such as Boeing Air Force Company's, linked to investment performance.

PENSION ADJUSTMENT MECHANISMS

We are interested in this area and will probably continue to seek innovations, for we feel that one way or another there have to be adjustment mechanisms to keep private pensions meaningful. Obviously, it would help a lot if the social security system also carried its fair share of the burden of upgrading total retirement income. This could be done by indexing social security to increase automatically with rising costs and standards of living, as is done in many other countries. Our social security system is strictly dependent on Congressional action, which has never achieved adequacy and has been mainly a catchup attempt to keep pace with inflation.

Dr. SCHULZ. You answered my second question, which was: Does the UAW negotiate to adjust the pensions of people in retirement upward?

Mr. SOLENBERGER. Yes.

Dr. SCHULZ. Did I understand you to say that this was a very uncommon practice in industry today?

Mr. SOLENBERGER. I think it is uncommon. There are token increases sometimes negotiated. Also, there may be some unilateral private plans so obviously out of line that the company has instituted some adjustments. But it is, I think, an exceptional thing.

Dr. SCHULZ. There are a number of plans these days that do have some sort of an early-retirement provision. Is it your experience with UAW workers that the workers understand the economic implications of taking this early retirement in terms of the reduction of their income in the future relative to the working population and also the reduction arising out of the difficulty of keeping pace with the rising costs of living?

Mr. SOLENBERGER. I think this is relative. We certainly make an educational effort within the union, and in some cases with the cooperation of companies, to have the individual who is contemplating early retirement look down the road a bit as well as at the immediate future.

At present, we have a voluntary early retirement program that was negotiated in 1964 under which a long-service worker can leave at age 60 with $400 a month. Now, that is until age 65.

Mr. MILLER. What is his income at age 65?

Mr. SOLENBERGER. At age 65 he drops back to the normal pension. Theoretically, social security ought to fill in the gap, but usually there is a cliff because social security is reduced as a result of leaving the work force early.

Mr. MILLER. How much would it be in dollars and cents?

Mr. SOLENBERGER. The cliff could be considerable at present. It could be a drop of one-fourth of the income at that point.

The trend, nevertheless, is strongly toward early retirement. The committee might be interested to note some detailed figures which are given in Mr. Edwards' full testimony. For example, whereas in the early 1950's, only 5 percent of all retirements in the auto industry occurred before age 65, last year this figure was about 73 percent. Before our 1964 contract provisions went in, about one-third were retiring before 65 and the balance after. Since then we have had over 70 percent out of much larger total numbers of retirements. So the trend is there, and these are primarily voluntary retirements.

RETIREMENT BEFORE "NORMAL" AGE

I think, in looking at the private-pension field, we need to reexamine the myth that only age 65 is "normal." I think there are a great many working people today—particularly those in repetitive jobs on an assembly line or working in dirty, debilitating surroundings—who feel by the time they reach their late fifties, especially if they have put in a lifetime in that kind of work, that they have earned the right to retire and they are going to want to take it.

Now, the private sector may develop mechanisms, but I think the public sector also should recognize that this is here and that it is not necessarily abnormal to retire below the normal retirement age of 65.

Miss MCCAMMAN. You called them voluntary retirements.

Mr. SOLENBERGER. Yes.

Miss MCCAMMAN. But they would include the retirement resulting from a plant shutdown.

Mr. SOLENBERGER. The forced retirement is a different thing, and I think needs different treatment in both public and private sectors. This is a social responsibility. Social progress shuts down plants, and the consequences should not fall on the individual.

Mr. Edwards. I'd like to go back to the statement Dr. Schulz made about possibly 25 additional years of life expectancy for the fellow that retires at age 55. The last study that was done on foundry workers that we have in our possession was done by the University of Wisconsin back in 1933, or thereabouts, and it indicated very clearly that foundry workers were 10 years behind the average at that time in life expectancy.

So it depends on your classification of work, the environmental area of work and many other things as to whether you have a right to expect to live in retirement until you are 75 or more.

We are trying to collect data now on foundry workers, because we believe a study ought to be done by some university, some professional group that would actually bring out the facts relative to life expectancy of foundry workers. We can't do a comprehensive study, but we are trying to bring forth enough evidence to warrant someone moving in this area, because foundry workers are subject to silica dust and you cannot spend many years in a foundry and not have some trace of silicosis. This is the medical profession's finding across the country.

In some States, if you have spent 20 years in a foundry, they will not even contest your claim for silicosis payments. Now, I am not saying this is accurate everywhere and 100 percent correct. But when we look at our work force, we must look at the total work force rather than just those on the high, upper peak of healthiest jobs.

Dr. Schulz. Yes, that is a very good point.

Mr. Oriol. Does the UAW have any studies or any other efforts afoot to redesign jobs, so that they are not as tough as they are on so many of the individuals affected by assembly lines and others?

Mr. Edwards. Well, I don't know that we have attempted to redesign jobs solely on our own recommendations, but we have complained very seriously about the effort and the stress and strain in many job assignments in our plants. And, through that, management has made changes that make the workplace more desirable or at least tolerable.

Today, however, in many cases working conditions and work areas are still very undesirable. Sometimes it is claimed this just happens to be a part of the industry, and we have not been able to force changes sufficient to eliminate all bad conditions.

Now, I am not saying it is a part of industry that can't be corrected. It is a part of the widely accepted way of operating that we have not been able to change through persuasion and collective bargaining.

Mr. Oriol. On page 9 of the prepared statement there is this sentence:

"Throughout our membership there is unprecedented feeling that improvement in our early-retirement program is needed."

I would like to ask whether that means in terms of an earlier retirement age or in terms of increased benefits or other improvements once the retirement period begins.

Mr. Edwards. The latter would be more true, although we are also talking about earlier retirement. I would think the greatest emphasis is on benefits. I will give my technician here the opportunity of giving you further comment on that.

Mr. SOLENBERGER. Well, I think there is no question today that there is a tremendous rank-and-file interest among auto workers in this whole proposition of early retirement. Similar interest undoubtedly exists among other industrial workers, also.

"30 AND OUT"

Right now a slogan you hear in Detroit is: "30 and Out." And sometimes this is voiced by workers who are in their 30s and 40s. They feel that if the old-timers who have spent 30 years and more on the assembly lines were given a chance to retire at a decent income, they would move from the top of the seniority ladder. Also, many of them think, "It is going to be very nice for me when I get there." This idea has a great deal of rank-and-file support.

I think the primary concern is to improve and build on the existing program so that long-service workers who want to get off that line after a lifetime on it will have the kind of economic base that makes it possible. This is going to require more benefits, obviously.

If we cannot fully solve the problem of reduced Soccial Security, as one of the penalties for going out earlier, then the question is, can we devise benefits that will reasonably make up for that? This is expensive and, as I've indicated, we feel that as long as this kind of early retirement is going to take place in our economy, then public policy should be directed toward helping meet the problem.

Mr. ORIOL. "30 and out"—a man starting at 20 could be out by 50 instead of 55?

Mr. SOLENBERGER. Yes. I think, however, there is real doubt as to how much utilization you get in this kind of program at the younger ages, if you go on the premise, as we do, that it means real withdrawal from the labor force. The UAW is not in favor today and has never favored the idea of providing a substantial early pension and then having the pensioner turn around and go to work full-time in a job such as the one he left.

Our whole idea of an early-retirement benefit, with some subsidy element, is that this is for the individual who substantially is prepared to leave the labor force. Many individuals may not be, and they won't utilize it.

While theoretically you might get a lot of people in the early 50s, I think it will depend on individual circumstances. Today the vast majority retiring early under our program are in the early 60s, and there is a peak at age 62 for the reason that that is when reduced Social Security is first available.

Miss MCCAMMAN. What are the requirements if workers receive the $150 benefit before eligibility for Social Security? Can they engage in any employment and receive that?

Mr. SOLENBERGER. Well, I think we have to make a distinction. In the case of the plant close-out or what we call "special" early retirement benefits, there are no strings attached to that. You may take another job or not, as you see fit.

In the regular early retirement arrangement that we negotiated in 1964 with supplemental allowances to bring income up to $400 a month until age 65, that is a voluntary thing contingent on withdrawal from the labor force. We feel the worker forced to retire because of a closed plant may still have family responsibilities and have to work somewhere to get by. Maybe the only opportunity will be in a car-wash or service station—but he will have to be employed.

So we really have two problems, one for the forced retirement and one for the earned voluntary retirement.

Mr. ORIOL. Mr. Sheppard.

Mr. SHEPPARD. Mr. Oriol, I have a prediction that in 30 years we are going to have a reversal of the trend toward earlier and earlier retirement. That is not the subject of this particular hearing, but it was the subject of another report written for this committee. That is just an aside.

I hope that you would agree that people should have a freedom of choice rather than feeling the pressure of the younger guys.

I remember that during the recession of 1957–58 that was going on in Detroit and Pittsburgh in the steel plants—and I met a guy 55 years old, 30 years in the plant and with six kids still to support.

There is a myth here. I remember we ran across several myths in the Studebaker situation, where people felt that we should not worry too much about these people. Their average age was 55, which meant according to the mythology they didn't have any children left in the house, and their houses were all paid for—and the whole line of myths, all of which turned out to be wrong.

NEED FOR "MEANINGFUL CHOICES"

I hope we can move to a public-policy position where people have meaningful choices on whether they retire or not, especially since we are going to get increased longevity even among foundry workers.

Nobody has picked up your point about purchasing power bonds. I was wondering if you would want to expand on that and discuss the question of whether or not that is another way of solving the question of the cost-of-living increase and changes and standard of living over time.

Mr. EDWARDS. I am going to let Willard speak on that one. But I want to put a plug in on the question of freedom of choice. We have now freedom of choice as it relates to retirement, and no one is compelled to retire except if the shop closed and he is without a job. If that happens, he doesn't have much freedom.

I am not in favor of freedom of choice no matter what the factors may be. I don't think I ought to have if it is going to trespass into areas where you ought to be protected. And neither should you have it to trespass into my areas.

Mr. SHEPPARD. My point about 30 years from now is that we might find we won't want a person to have the freedom of choice to retire before 50, for his own sake as well as for the economy's sake.

Mr. SOLENBERGER. On the question of inflation erosion, there are some variable benefit plans that are predicated on the performance of the stock market, the theory being that in the long run if there is inflation, the value of securities will rise sufficiently to permit payment of higher benefits to offset the inflation.

Of course, the short-run correspondence is sometimes very peculiar and there is a considerable amount of gamble. We would favor a system of assured adjustment based on the realities of price levels and what it costs to go to the supermarket and get the groceries, rather than on where the stockmarket is at a particular point in time.

The Federal Government has a major concern with inflation, and the present administration is talking a great deal about this subject. Some of the current measures taken and their results, such as domestic program cuts, record high interest rates and unemployment, may be aimed at inflation, but they are extremely rough, just as inflation is, on a great many ordinary people.

Apart from the issue of control measures, we feel that given the fact of Federal responsibility in this area, to the extent that inflation occurs, it would be appropriate to have hedges against it made available through the Government. The idea of purchasing power bonds, of course, is not a new one. It is one that we have talked about before. Many economists have talked about it. Applying the idea to the private pension field, our proposal is that Federal purchasing power bonds, the value of which would adjust over time with price levels, should be made available as pension fund investments to qualified plans which undertake by formula to adjust pensions on a corresponding basis.

Such an investment medium would be particularly significant in a terminated plan situation where the worth of the fixed-dollar benefits which the plan's assets can provide today may be greatly eroded 15 or 20 years from now when people collect them.

Long-Term Erosion

The same type of long-term erosion problem exists in the case of vested pensions under on-going plans. If you vest something a worker has earned a right to in his 30s, what is it going to be worth at 65 unless we can develop some kind of workable updating mechanism? Although perhaps not the whole answer, purchasing power bonds could well contribute to the solution.

Mr. Oriol. Dr. Schulz.

Dr. Schulz. I think one area where I would like to take issue with you in your prepared statement is with regard to where the responsibility should lie with regard to meeting the costs of early retirement.

You said that the Social Security System and the public sector in general are not assuming sufficient responsibility. As an economist who is concerned with the problem of finding the resources in the economy for providing adequate income maintenance for the elderly, it concerns me greatly to think about institutionalizing an earlier retirement age within the Social Security System especially at a time when we can't seem to find resources in the economy now to give adequate standards of living to the people who have already retired at 65 and above.

It seems to me that Mr. Edwards' example of the foundry worker very well illustrates the major contribution which the private pension plan can make to deal with the special circumstances that certain portions of the work force face.

You have here a small group of workers who have a very special problem. That is, they have a very hazardous and, apparently from what you say, a very unhealthy occupation, which means that their average life expectancy is significantly different from the life expectancy across the country.

Now what I am worried about is, if you take that example and then attempt to justify, say, early retirement under Social Security at full benefits at age 60, you would then blanket-in and encourage retirement at an earlier age by people who are, for example, working in offices and have relatively healthy occupations. Also, for example, people like myself, who teach at universities, are in relatively health job environment.

Mr. SHEPPARD. It is not healthy anymore.

Dr. SCHULZ. It seems to me that the private pension systems can be responsive to these special problems and provide for special early retirement for these very special workers and that the social security system should be used to take care of a much broader spectrum of people.

I would appearciate your reaction.

Mr. EDWARDS. I think you are a very fine economist, and I believe you know where you are going and pretty much how you are going to get there.

We are not asking that social security assist us in the least as it relates to retirement for foundry workers. We can do that at the bargaining table. What we are concerned about social security doing is taking care of the helpless case, where the company decides that we are no longer in business.

Now we cannot negotiate with that company anything for a foundry worker, or anyone else for that matter. And if this happened when the worker is 50 years old and he is not reemployed gainfully between 50 and 62, the kind of cutoff that social security imposes upon him is a very, very serious penalty.

Willard raised a question of what happens to a male worker between 62 and 65. These are areas where we are asking that you and those who know best how to make actuarial adjustments costwise in a mammoth system, such as social security, come up with the answers that will not impose this type penalty upon the people that have no say about what happens to their jobs.

Mr. SHEPPARD. How about extending unemployment compensation as another route instead of freezing the worker?

Mr. EDWARDS. Up to 10 years may be involved. If I cannot get social security credits frozen when I am forced out of work today and can't draw benefits until 1975 or 1980 and you then count that period as deficit years of no earnings and compute my benefits on the basis of that deficit, that is a penalty to me I cannot get around, because I had nothing to do with my unemployment in most cases in the first place, and yet it is done.

So I think our argument is not about having social security make special bins and special molds to take care of all of the little problems that you might think up; it is a broad across-the-board subject with us.

Foundry workers we intend to take care of in our coming collective bargaining negotiations. We believe it is a very, very low-cost item spread across a work force. In General Motors it is probably less than one-tenth of a cent to do all we talk about doing in a special sort of way for foundry workers. So that is not a problem.

But if Kelsey Hays Wheel Co., which operates a large foundry, decides to close that foundry tomorrow and it has got 1,500 workers there and many are of advanced age, we may be able to take care of a guy from 55 forward based on the built-in provisions of our retirement program. But the guy that is 54 years old, who may not be gainfully employed again until he is aged 62, is facing a tremendous price for that. Why should he?

You would not want that, I am sure, if it were imposed upon you that way, although you are probably not relying nearly as much upon social security for your sustaining a livelihood in your later years.

Dr. SCHULZ. I think we would agree on the problem. The question is, what mechanism should be used—be it through the public or the private sector—to take care of this sort of problem?

For example, Dr. Sheppard suggested the alternative of unemployment insurance as opposed to the social security system. One of the concerns that people have raised with regard to trying to take care of the problem through the social security system is that one of the major virtues of social security is the rather simple eligibility requirements to get a benefit.

If you introduce into the social security system special hardship cases and allow some person to get benefits at an earlier age, then you have to test whether these people indeed are "special" circumstances. I think that would complicate very much the administration of the social security system. We might want to take care of that and other special problems with a special public program, and keep it out of social security.

Mr. SOLENBERGER. Dr. Schulz, I think possibly we have not commmunicated clearly enough. I don't think we anywhere in the testimony propose, or at least it is not our intention, that in this sort of case the individual should start drawing monthly income from social security at 55.

ROLE OF PRIVATE SECTOR

We are saying, let the private sector solve the problem of immediate income in this situation because we feel that the cost of this should be considered, in the case of a foundry worker, for example, as part of the total cost of production and operation in that industry. The industry should make provisions if there are people that have to get out early.

The question really is could we by some freeze mechanism assure that at least when the worker does draw social security at a later age, it will be based on his high-earnings period? This might be accomplished by a special drop-out provision that would apply to certain kinds of economic dislocations.

As to the question of income maintenance during extended unemployment, there is certainly need for Federal standards for unemploymemnt compensation and broader provisions. We are very interested in it. America has before it the whole problem of guaranteed income as an attack on poverty, which we support and believe ought to be and can be well above subsistence levels.

The income-maintenance problem should not be confused, I think, with the penalties that are now in social security. We consider the present discrimination against men as compared to women in the social security system is something that needs correction.

Our president, Walter Reuther, testified before the House Ways and Means Committee last November on this subject. I know there is support in many quarters that at least that first step could be taken in the Social Security Act with relatively little cost impact.

Mr. ORIOL. Gentlemen, on behalf of Senator Williams and members of the committee, I would certainly like to thank you for coming in, especially at a very busy time, and giving us this very helpful presentation and statement. We may have questions by mail that we will send you.

Mr. EDWARDS. Thank you.

Mr. ORIOL. The next witness is Merton Bernstein, professor of law, Ohio State University.

The U.S. Department of Labor was to send a representative here today to give information related to a statement made in Professor Schulz's report, which was this:

> It is an astounding fact to report that today we do not know what the level of private-pension benefits is and how they are changing over time. Although the Welfare and Pension Plans Disclosure Act requires that the provisions of all pension plans covering more than 25 workers be filed with the U.S. Department of Labor, this great wealth of information remains relatively unanalyzed.

Senator Williams wrote to the Department asking them to send a representative here simply to discuss this point. Our latest word from the Department of Labor is that no representative is forthcoming and that we will get a letter on the subject, which may arrive tomorrow.

Dr. Schulz, did you care to elaborate on your statement in the report, or do you think that covers it?

Dr. SCHULZ. Well, the only bit of elaboration that I would make in this regard is as a student of the problem of income maintenance and the problems of private pension coverage and the adequacy of private pension benefits, I feel that one of the most significant contributions that could be made to improve our knowledge of just what is happening in the private pension area, particularly with regard to benefit levels, survivors benefits, adjustments of pensions in retirement—one of the most significant advances that could be made in this area is for a rather comprehensive program to be developed in (or furnished by) the Department of Labor to analyze this data.

It is just astounding to me that so many years have gone by with such little activity.

Professor Bernstein has criticized any number of times the inadequacy of the benefit-level analyses that have been made by the

Bureau of Labor Statistics. In all cases these estimates have been based on highly unrealistic assumptions. If the Congress is to make any public-policy decisions with regard to encouraging or discouraging private pension benefits, it seems to me that the very first thing they have to know is what is happening in the private pension area.

As I said in the report, to the best of my knowledge we just don't know very much.

Mr. ORIOL. Professor Bernstein, thank you for coming from Ohio. Welcome back to Washington.

STATEMENT OF MERTON BERNSTEIN, PROFESSOR OF LAW, OHIO STATE UNIVERSITY

Mr. BERNSTEIN. Thank you. I am pleased to be here, because the problem to which the Special Committee on Aging has been addressing itself is a critical problem in a world in which there is so much hardship. It is a little difficult to keep track of all of the difficulties requiring remedy. But it cannot be overstressed that the elderly make up a very substantial portion of the poor and the older they get, the poorer they get.

But this is not simply a question of poverty, as Senator Hartke pointed out at the beginning. When retirement strikes, it marks the beginning of the decline in living standards for practically everyone. The longer one lives, the farther down the slope one gets. The most disadvantaged group is that large core of hardy widows who are poorly treated, relatively speaking, under social security but have been getting progressively better treatment. Their benefits today come to about $1,000 a year.

When women are in their 70s and 80s—and there are tens of thousands of them in this predicament—social security is likely to be their only cash source of income except for welfare.

I think it is extremely fortunate that the chairman of the committee, Senator Williams, has made pension plan problems a prime order of business. The elderly have a splendid champion, and they badly need one.

I must note also that Senator Hartke is no recent recruit to the ranks. He has worked for a considerable time in this area, a voice calling for relief and reform.

I would caution that this is not an area in which interest is slight. The many millions of retirees make a potent force in our society today, and their needs will continue to be felt. If the private-pension system continues to respond inadequately, then the emphasis will be upon other alternatives, the chief of which is social security. And it may very well be that what we will see in the absence of reform in the private-pension system, the prospects for which I am not sanguine, is just another greater and greater emphasis upon the public system.

I would like to address myself, if I may, to a comment that Senator Hartke addressed to the first group of witnesses and that was what they considered to be the outlook for social security improvement.

Social security does not stand still. With each increase in the creditable-earnings base, the group of Americans who have a larger stake in the social security system is enlarged. The earnings base will increase, and it will increase fairly rapidly. As that increase takes place, there will be less and less interest in private-pension supplementation and the larger and larger middle-class groups with a growing stake in social security will concentrate on its improvement.

I think that means that we may see in the not too distant future greater effective pressures for a more adequate social security system as the electorate with strong concern is enlarged and the stake of middle-income people in the social security system is enlarged.

That is by way of introduction.

Perhaps I ought to qualify myself. I have spent practically all of my professional work life in various capacities in the labor-relations area including my stint as counsel in 1952 to the U.S. Senate Subcommittee on Labor and Labor Management Relations. I stress this because familiarity with labor-relations realities, the way industrial life is lived by workers, is a terribly important part of assessing the adequacy of private pensions.

I also received some training as counsel to the Railroad Retirement Subcommittee of the Senate. And in 1959, after leaving the Senate staff, I embarked on a study which eventuated in a book entitled "The Future of Private Pensions." I mentioned in my prepared statement that the book has received some awards and citations. I do this not merely from vanity but rather as an indication that some sober, serious academic groups have regarded that work as a serious commentary upon the private-pension sector.

The staff work of this committee that has already produced two published studies has enriched the literature decidedly and brought a focus to the problems of the elderly.

This hearing is addressed to Mr. Schulz's piece, and I think it is a really splendid job of summariznig some, not all—as he points out, one has to be selective or one writes a book of 375 pages—of the critical issues.

I would say, just as an overall comment, that excellent thought it is, it errs, as Mr. Schulz's earlier analysis on the outlook for retirees' wives in 1980 did on the side of optimism. He tends to take a sunnier view of how private-pension income is going to work out. He and I have been through this many times.

As he points out in, I think, this piece, some of the assumptions of his earlier work on projected income in 1980 were based upon possibly overly optisimtic assumptions. And I think that is true. I think perhaps his latest work—the commimttee print here under consideration—is anything but encouraging, it also is overly optimistic.

I would like to submit my prepared statement, if I may, and provide some oral highlights, perhaps, inviting your commentary, if it stimulates questions.

(The prepared statement follows:)

PREPARED STATEMENT OF MERTON C. BERNSTEIN

The Private Pension Gamble

I. THE ODDS AGAINST ACHIEVING PENSION ELIGIBILITY.

If every year a company gave an employee the funds representing his retirement savings for the year on the condition that he go to a race track and bet on a horse with 10 to 1 or longer odds, we would be shocked. If the federal government gave such a scheme a tax subsidy, we would be aghast. Yet, that is essentially what our $100 billion plus private pension system does with workers, aided and abetted by at least a $3 billion subsidy from the United States Treasury. Employees under private pensions plans forego part of their wages every week, every month, every year so that they may be devoted to employee retirement although the odds are that the great majority of them will not realize benefits under such plans. The losses of many provide the funds with which the pay-off is made to the lucky few—just as at any honest race track.

The hazards employees bet against are that their company, division, department or job will not disappear, that they will not find it advantageous to shift from a declining company or industry to an expanding one, or that injury, ill health, or obsolescent skill will not force them out of ther pension-covered employment. The way plans are now designed—with heavy emphasis upon long, uninterrupted service with one company or group of companies—achieving a decent pension means staying with the same company throughout a work career of 30 to 40 years: any less means a less adequate benefit—or none.

But the realities of the world of work make it utterly unlikely that most employees can run this maze successfully—and no one can foretell which routes will turn out to be blind alleys.

A. Business Changes, Failures and Reorganization

Just sample a few recent news stories on major changes in corporate organization.

"Borden Ending Milk Business Here and on L.I. in January." [1]

"50,000 NASA Jobs To Be Eliminated." [2]

"Quiet Purge at Goodrich." [3]

Goodrich Rubber management having beat off an attempt to take it over, embarked upon an economy-efficiency drive which resulted in the "thinning" of executive and white collar ranks and the shutdown of a Massachusetts plant which had had 950 employees."

"Columbus Factories to Close." [4]

That story reported that three plants of the Milpar Company employing some 350 workers would be closing within 90 days. Only a few of those could be absorbed at other company installations.

"UAW Members Told Job Efforts Made." [5]

In this instance, four hundred and eighty jobs were going down the drain with the shutdown of another Columbus plant by another corporation, not defense connected.

These are merely examples of a constant stream of plant and unit shutdowns that characterize the dynamic American economy. Any attentive newspaper reader can attest that nationally and in every major community and

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[1] New York Times, December 5, 1969, p. 8—cols. 7–8. Among other things the story reported:

> Industry sources indicated that 300 employees could be affected, and the announcement said that the company would be carrying on discussions with unions about severance pay.
>
> The letter concluded: "We wish to thank each of you for your efforts to keep our milk business going, but market factors beyond your and our control have regrettably made it necessary for Borden to quit the local market."

Borden's had been in the milk business for almost a century in Metropolitan New York; it was one of the two largest suppliers of milk in that area at the time it ceased such operations.

[2] *New York Times*, January 14, 1970, p. 1, col. 5.

This massive cut of more than one quarter of those working for NASA will include employees of private firms under contract to NASA.

[3] *Time Magazine* 26 (December 26. 1969).

[4] *Columbus Evening Dispatch*, January 16, 1970, p. 1, col. 4.

[5] *Columbus Dispatch*, November 2, 1969, p. 10A, cols. 1–3.

hundreds of smaller ones, large and small employers shut up shop. These shutdowns end not only jobs but pension expectations because pension plan benefit eligibility depends upon uninterrupted employment of long duration with the employing enterprise. A full and detailed account of many examples will be found in my book, *The Future of Private Pensions*, Chapters III, IV and V (Macmillan-Free Press, 1964).

B. The Special Vulnerability of Pension-Covered Jobs

I would emphasize two points: pension coverage is heavily concentrated in manufacturing an despecially defense-related manufacturing, which expand and contract erratically. The cutbacks come at brief enough intervals to do massive damage to pension leigibility as my earlier study demonstrates. Even with the unusually liberal vesting of the Boeing Company plan (briefly summarized at the end of Professor Schulz's essay at page 61), i.e., after eight years of service 45% of an employee's normal retirement benefit vests, thousands of separated employees must have lost years and years of pension credits as employment expanded and contracted.

For example one study[6] of a layoff of more than *13,000* Republic Aviation Company workers on Long Island due to a cutback in production of the F-105 fighter bomber reported:

80% of those laid off were skilled and semi-skilled men.

More than half of the men laid off had fewer than 10 years service with Republic (only 30% of the women did).

Those laid off were concentrated in the 36-55 age group (not the restless job-changing kids supposedly accountable for most job changing).

On the average, the new jobs obtained paid less well (lower pay jobs tend to be less frequently pension-covered).

One-quarter did not obtain permanent jobs when first reemployed; higher percentages of those 45 and over were in temporary jobs (which have no pension pay off).

About half found jobs in manufacturing, where pension coverage is greatest—the other half went to areas of work in which pension coverage was much more sparse.[7]

Under the usual 10 and 15 year vesting requirements, "defense" contractor employees have but slim chances of seeing retirement benefits for which they gave up a part of their current compensation. If the Vietnam War ever does end, we will see a massive wipe out of pension credits for hundreds of thousands of workers—with dubious chances of finding solid, pension-covered new-jobs.

Does it make much sense to attempt to justify present pension plans as a means of inducing employees to stick with one company for life—or at least 10 or 15 or more years—when it is the jobs that disappear in major pension-covered segments of private employment?

In some instances, an entire plant of a successful concern will simply shut down. In one such instance reported in my book, a large company was studied during the period 1939-1955. Out of its dozen plants during that period, only three were in operation for the entire 16 years. One plant closed after six years. Pretty clearly, 10 and 15 year vesting requirments would do the employees of such a company very little good.

From 1954 through 1967 the annual number of business failures varied from 11,000 to 17,000.[8] Table 1 shows the age at death of these firms. Note that the overwhelming majority—indeed consistently more than 75% of them —expired before they had existed for ten years. These are not Mom and Pop candy stores.

In 1967, this pattern held for the 1,832 manufacturing firms which failed, for the 1,246 wholesale concerns, the 2,261 construction companies, the 1,329 service firms, as well as 5,696 retail outlets which folded.

Again, the "liberal" 10 year vesting will not do much good for employees of firms which do not stay alive for ten years.

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[6] United States Arms Control and Disarmament Agency, *Post Layoff Labor Market Experiences of the Former Republic Aviation Corporation (Long Island) Workers.* (1966).

[7] *Id at* 10–11.

[8] Dun and Bradstreet, *The Failure Record Through 1967* 3 (1968).

TABLE I. TREND IN AGE OF BUSINESS FAILURES 1945–67

Year	Percent in business 5 years or less	Percent in business 6 to 10 years	Percent in business over 10 years
1945	59.1	19.8	21.1
1946	71.8	13.9	14.3
1947	77.6	13.3	9.1
1948	76.5	12.5	11.0
1949	74.6	14.5	10.9
1950	68.2	19.0	12.8
1951	63.2	23.5	13.3
1952	59.9	25.8	14.3
1953	58.5	26.7	14.8
1954	57.2	27.3	15.5
1955	56.6	26.0	17.4
1056	58.6	23.1	18.3
1957	58.9	21.8	19.3
1958	57.2	21.4	21.4
1959	57.1	22.3	20.6
1960	58.6	20.8	20.6
1961	56.2	22.4	21.4
1962	55.4	22.2	22.4
1963	55.4	21.7	22.9
1964	56.0	21.5	22.5
1965	56.9	21.4	21.7
1966	57.4	21.5	21.1
1967	55.3	22.5	22.2

C. Conglomerates Cut Off Middle Management Pension Service

The several corporate merger movements of the post World War II era are culminating in the conglomerate movement, in which pieces of going concerns are traded about at a rapid rate. These reorganizations frequently cost significant numbers of rank and file, pension-covered jobs.[9] But, this latest method of corporate realignment is especially hard on middle management employees, whose pension-credit building frequently is sharply curtailed. Last Spring I saw an example of such an occurrence. A plant at which I arbitrated a dispute was sold by one corporation to another as a going concern. In this instance, no manufacturing jobs were lost. But this Fall when I met the Director of Industrial Relations and his second in command at an Industrial Relations Research Association luncheon, they reported they were at new jobs and ruefully agreed that the heavy job changing occurred in the managerial ranks, who tend to be very vulnerable when new management takes over.

D. Employee Turnover—Desirability

The American economy has been characterized by a high degree of adaptability to change made possible by the ability of both capital and labor to be rapidly redeployed from less to more urgent tasks.

We are intolerant of labor's resistance to technological change as a drag upon the economy. It hardly makes more sense to justify pension plans as a means of locking employees—usually the most talented and skilled—into jobs when they are in demand elsewhere to perform tasks that pay better because they *are* more in demand.

If employers seek to justify pension plans as a means of immobilizing talented individuals, let them pay for it. It is hard to see why the tax paying public should bear heavier burdens to enable some employers to make the economy less efficient.

E. Employer Recoupment and Reuse of Funds

In order to qualify for favored treatment under the Internal Revenue Code, a pension trust must, among other things, be "for the exclusive benefit of . . . employees or their beneficiaries" and "it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries. . . ."[10]

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[9] E.g., the instances in Chapter IV and V in *The Future of Private Pensions* (hereafter FPP).

[10] Internal Revenue Code §401(a).

But listen to this anecdote buried in the detailed story by the former editor of the Saturday Evening Post (after recounting the publication's serious, indeed fatal, financial troubles):

"Now the next step is that I found ten million dollars," Ackerman continued, with an oddly twisted smile. "And if you want to know where I found it, I won't tell you, because it's none of your business." (It turned out later that the staff cuts had left a large surplus in the company's pension fund.)[11]

That this is not an isolated incident is demonstrated by a case I described in my 1964 book.[12] There a large grocery company that was buying up small firms acquired a relatively small outfit that had a pension plan. Within two and a half years after it took over the company, the successor separated all but 75 of the 580 former employees, but *continued* the plan. Despite a ten year vesting provision, the purchasing company thereby obtained the *reuse* of $170,000 in premiums paid by the predecessor company for the separated employees who departed without pension benefits enabling the company to "pay" for about two full years of the plan thereafter without any actual payments. More recently another such case[13] came before a different court in Minnesota, but the attempt failed because the court, adopting the arguments I put forward in 1963 and 1964, held that such a windfall reuse of funds was not contemplated when the plan was established and would constitute unjust enrichment. Whether this decision, which so far stands alone, will prevail over the contrary decisions in several earlier cases, remains to be seen.

But the phenomenon of large scale separation *before* and *after* a change in ownership demonstrates the weakness of a Bureau of Labor Statistics study which purports to show that company mergers have not adversely affected pension rights to a substantial degree.[14] The study limited itself to the plan participants *at the time of the plan's termination* despite the fact that both logic and experience (including my commentary published more than three years earlier) showed that employee separation often is heavy both before and after the kinds of occurrences that typically accompany plan termination. Hence, the conclusion that *only* 225,000 employees—or 20,000 a year, the latter constituting *but* 1/10th of 1 percent of employees under plans—were under terminated plans is of dubious comfort.

Only a small sample was studied for actual benefit loss. I hesitate to go into complete detail, but I consider the study's analysis and conclusions on this aspect to be erroneous and misleading. Plan resources in ten instances studied equalled about one-half their liabilities: (I quite disagree that under the circumstances liabilities are overstated to the extent the article suggests.) Six other plans also could not pay off fully on claims (remember only employees still employed or who had been separated with vested credits sometime earlier had valid claims). The report goes on that: "there was no apparent losses since the participants were transferred to other plans." This reassurance is utterly mystifying because the new coverage would not compensate for former years' credit unpaid (and the job security of employees in such situations is extremely precarious). Needless to say, the "comforting" conclusions of this study have been widely repeated.

On a related point, I endorse the Schulz report's censure of the Bureau of Labor Statistics reports on plan benefits. The Bureau's data are utterly misleading. The Bureau takes only one element of the benefit formula—that for current service, which is always the highest—and multiplies it by 25 and 30 years of service. The amounts thus derived state what the benefits would be 25 or 30 years *in the future* if the benefit formula is not changed—which is utterly unrealistic. And they do not reflect the often lower amounts for years of service for the decades before retirements that take place during the current contract—that omission also is utterly unrealistic. As a result the several Bureau of Labor Statistics reports on benefit levels are useless and misleading.

I have been pointing this out to the Bureau since 1964. A few years ago one of its officials told me that its advisory council agreed and that future

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[11] Otto Friedrich, *I Am Marty Ackerman. I Am Thirty-Six Years Old and I Am Very Rich. I Hope to Make the Curtis Publishing Company Rich Again.* 239 *Harper's Magazine* 92 at 114 (December 1969). In order to liberate those funds for general use, the plan would have to have been terminated and all valid claims satisfied. *Then* the surplus *would* have been available to the employer under most court decisions.

[12] FPP, Chapter V.

[13] Lucas v. Seagraves Corp., 277 F. Supp. 343 (D. Minn. 1967).

[14] Emerson Beier, *Terminations of Pension Plans: 11 Years' Experience,* 90 MONTHLY LABOR REVIEW (No. 6) 26 (June, 1967.)

benefit studies would be based upon what current retirees of various length of service would get under the *actual* benefit formula. Alas, since then an imposing report was issued on the same old useless, misleading basis.

II. THE BASIC MISDESIGN OF PRIVATE PENSION PLANS

Funded pension plans derive from group annuity plans offered by insurance companies. Although only a minority of plans now use the insurance vehicle, the basic principle of plans is that of insurance. Under the insurance principle, members of a sizable group subject to a common hazard each pay relatively small premiums to form a fund from which the few who actually experience the particular misfortune will receive relatively large payments to compensate for the loss. Fire insurance is the classical example. Many pay so that a few may receive. However, the hazards against which pension plans now purportedly provide protection—retirement from work because of age or disability, and even death after and before retirement—do not affect a small minority but *will* happen to *every* plan participant and affect their survivors. The insurance design of pension plans simply does not contemplate widespread, let alone universal, benefit eligibility. This aspect of plans, coupled with their spotty coverage to begin with, means that private pensions will provide only a minority of citizens with benefits in old age despite the fact that all need such benefits.

III. NEEDED PRIVATE PLAN SUPPLEMENTATION

Some argue that Social Security already provides a universal system of retirement, disability and survivor benefits. Its major deficiency is the obvious inadequacy of benefits. For example, in mid-1969 the average retired worker's benefit was just about $100 a month or $1200, very substantially below the poverty level. Widows over 60 averaged $90 a month, or $1080—even farther below the poverty level. The 1969 benefit increases, while substantial, do not bridge the gap between cash income and a tolerable standard of living, let alone enabling the elderly to maintain pre-retirement living standards. That inadequacy is made very clear indeed when comparing a *family's* OASDI benefits with a *family's* pre-retirement income rather than comparing a family's benefits with only the principal earner's pre-retirement income as is so commonly done.

As the Social Security creditable earnings maximum rises, groups with income above the formerly creditable maximum will obtain larger benefits replacing a larger portion of their pre-retirement income. To the extent that private plans are designed to provide a substitute for pre-retirement income in excess of creditable earnings, private plan benefits become less necessary. Inasmuch as the Social Security benefit will become payable to practically all in private employment with earnings over the former maxima while the private plans pay off to only a minority, the attractiveness of Social Security for middle income groups will grow and the siren song of private plans will be less tempting. Indeed, it is the white collar group that is most likely to catch on to the hazards to themselves of private plans and swing their support to an enhanced Social Security program. The longer I work in this field and see the reluctance of the private groups most concerned with plans to undertake real pension reform, the stronger becomes my conviction that private plans will be displaced more and more by Social Security. Oddly enough, these private groups do not see their opportunities to put out a more satisfactory product. Instead, they inveigh against Socail Security expansion as if the evil were not their own lack of initiative. Some in the insurance business seemed to have learned from the Medicare battle that you can't beat something with next to nothing. But the banks, with the bulk of the pension business, did not have that chastening experience and remain as opposed to significant change as the 18th century Bourbons. They do not see any real threat of regulatory legislation and underestimate the broad appeal of Social Security.

This Congress has already reflected the solid national support for Social Security—and many do so again. Private pension advocates may point out that most reforms made in the private sector will not be so readily seen. But that merely indicates another area in which Social Security is superior to private plans—it can react rapidly to beneficiary needs, drawing upon the entire productive economy to do so. Nonetheless, probably for a long time to come, Social Security will fall short of adequacy for very large numbers of people, who will require some group form of income supplementation during retirement, disability and widowhood. Private plans could perform a major social role, but they must undergo basic reform to do so.

IV. THE MAJOR REQUIREMENTS OF PENSION REFORM

Private pension plans should—and could—function as a mass means of supplementing Social Security, rather than as is now the case as a means of supplementing the incomes of those who are already best off.

Private pension plans should—and could—function as a means of *retirement savings* for the mass of employed rather than as a lottery in which only a a favored minority win.

Two mechanisms recommend themselves: a National Group Pension plan and a National Pension Clearing House. Both contemplate early vesting—as early as one year after starting a job. Indeed, immediate vesting is what is needed and the two plans would make it financially feasible.

Under present plan design immediate vesting is regarded as prohibitively expensive. However, if employees earned effective pension credits from practically all of their years of work—say 40 or 45—the cost *per year* per employee of any benefit would be much less than it is today when the final job pays for the entire benefit spread over the last twenty or fewer years of service. One dollar set aside at 6% interest 40 years before retirement is worth $7.04, more than double the dollar set aside 20 years before retirement ($2.65). In addition, if any employee has the value of 30 years of pension service rather than 15, it clearly follows that for any given level of benefits, the cost per employee per year is a fraction of what it is under present day plans.

All the vesting plans put before Congress in the past show sizable net cost increases *without any* allowance for the relief afforded any plan by the credits of incoming employees. This reduction in unit cost would put plans within the reach of many companies to whom today they are simply too costly, particularly if the installation and administration costs can be significantly reduced—which is possible.

A National Group Plan would provide small companies with the means of buying into a group plan without the high installation costs that presently characterize plans for small companies. (Schulz 26–27, 28–29; FPP 183–185). While the future introduction of master and prototype private plans probably will reduce plan installation costs (how much remains to be seen), the small firm is an inadequate base for a pension plan. Even large companies expire or disappear with surprising rapidity; small companies disappear by the droves. As I reported in my book:

"Selected figures from a recent year give some idea of the rate of turnover of businesses. On January 1, 1958, there were some 4,500,000 firms in operation, 333,000 of them engaged in manufacturing. In the course of 1958 alone, 411,000 new businesses were formed, 25,000 of them in manufacturing. During the same year, 346,500 concerns ceased operations, 26,800 in manufacturing. The mortality rate is highest among small firms and is concentrated in the early years." [15]

They are simply more vulnerable to economic shifts, including major strikes which can wipe out many small businesses before the principal antagonists compose their differences. (If small companies had pension coverage available on a manageable cost basis, they might be able to compete somewhat more effectively.) Not all these changes are "failures", but the disappearance of the employing unit is nonetheless real and potentially fatal to pension eligibility. With credits purchased from the National Group Plan for every year of service for every employee in whatever amounts were desired, the expiration of the company or company unit would not present any plan termination problems; each employee would simply retain the credits purchased for him. The arrangements could be governed by union-management agreements prescribing the level of benefit credits to be purchased. The credits obtained by participating in an on-going plan, prudently and expertly managed, would participate in the growth of the economy so that they would not be shrunken by inflation as can happen with certain types of insured plans and *all* vested credits under present day plans (other than TIAA).

[15] FPP, pp. 87–88 (footnotes in original omitted).

The agency itself could be an all-private undertaking or some mixture of private and public enterprise. Given the mobility of our population geographically and from industry to industry as workers go up and down the economic ladders, existing multi-company plans that are limited to industries, geographical areas or even assorted enterprises (as with the IUD and Machinists' multi-employer plans) are not comprehensive enough to provide the required continuity of coverage for small company employees.

Such a national plan would enable thousands of concerns with tens of thousands of employees to obtain pension plan coverage at low cost—and the credits would vest immediately. While such credits would be small, if they cumulate year after year throughout employment—as rarely happens under present plans—the resulting benefit would not only be assured but could be substantial.

Such a plan could be a vast source of new business for those engaged in the private pension sector. But the private sector seems more interested in business as usual, inefficient though it is.

The bulk of existing plan coverage is now accounted for by large plans. But that factor does not assure employees continuity of employment. Large companies constantly spin off units, shut down older plants, often replace them at a considerable distance—not infrequently in foreign countries closer to the markets they serve, close out product lines and expand and contract operations, especially if military hardware is involved. Hence there is continual turnover of employees, not simply the young and flighty, but the mature and settled. Indeed, the separation of middle-aged workers is especially serious because, study after study shows, they often suffer a permanent demotion in work status, and the lower paying jobs they obtain are insecure and less likely to afford pension coverage.

Millions of workers have and will spend their lives going from job to job, company to company, industry to industry. They should have the means of effective *savings* for retirement and their survivors. This requires immediate or short term vesting (not necessarily 100%—but as close to it as possible) and a mechanism for splicing together the value of the benefits they earn. For this purpose I have proposed a National Pension Clearing House, which is described in Chapter X of my book—which is now out of print, only temporarily I hope. (A reprint may be found in Volume I of the Joint Economic Committee's *Compendium on Old Age Income Assurance* (Joint Committee Print, 1968) and 1967 Illinois Law Forum 765 (1967)).

The Clearing House could be an entirely private affair, subject to federal regulations, owned and operated by banks, insurance companies, consulting actuarial firms, companies and unions. Legislation could assure adequate opportunity for each kind of group to participate and to insure that the Clearing House employees did not have conflicts of interest.

It would provide these services:

Arrange for recording the vested benefits of former participants of private plans for which purpose the low cost, high efficiency Social Security recording keeping facilities probably should be used:

Become the depository for the (transfer) value of vested benefits accrued to former participants of plans by which they are no longer covered (this could include the receipt of a series of payments from the former plans although single payments could be made);

Provide low cost group pension plan coverage on the basis of the amounts of transfer values each employee accumulates;

Operate the National Group Pension Plan for both small companies and employees whose transfer values are paid into the Clearing House;

Provide expert financial management services for the National Group Pension Plan.

Such an arrangement is superior to vesting as now practiced for two reasons: the amounts credited to existing employees would participate in the economic growth of the country's economy, whereas present day vested benefits are computed on the basis of the benefit formula at the time the employee leaves the plan, and such a plan could provide disability benefits—and I've never heard of a vested benefit doing that.

To sum up—pension plans today are subject to employer manipulation for employer interests; they are not designed to pay benefits to the bulk of their participants; they are out of the reach of millions of employees of small companies; they ought to be made tamper proof by prohibiting employer dealings with the funds—better yet, public corporation operation of trust funds; they ought to be redesigned to provide mass coverage supplementing Social Security through a National Group Pension Plan, and they ought to be coordinated with a National Pension Clearing House to provide effective plan coverage throughout all periods of work.

V. NEUTRAL PLAN MANAGEMENT

The McClellan Committee has conducted hearings in which shocking conduct by a plan trustee was fully aired. The large amounts of money building up in private pension funds constitutes a constant temptation for some management and union officials. Company officials—as in the Saturday Evening Post situation—sometimes see the pension funds as available for non-retirement purposes. The problem of self-dealing, e.g. the use of pension funds for loans to an employer or the lease back of property the company "gives" to the fund, are fairly clear. Some pending legislation would limit activities of that sort. I think it should be prohibited because there is no way to assure in advance that the self-dealing is not self-serving and hence a subtraction from the value of the pension assets. Indeed, an employer enters into a self-dealing arrangement because it *is* more advantageous *to him.*

But, beyond that, there is a more subtle but more prevasive problem. For the most part employers arrange for the handling and investment of pension funds. As a result, the pension industry for the most part, tends to look upon the employer as its customer—he's the man to sell. It follows that in a highly competitive market plans will tend to be designed to appeal to employers because it serves their purposes. That is why so much of the how-to-do-it pension literature dwells upon how far employers can go in serving their own interests in designing and operating pension plans. It is a thoroughly unwholesome bias.

Hence, I earnestly suggest that consideration be given to requiring that pension management be placed in completely neutral hands, beyond the power of companies or unions to corrupt. That would seem to require establishment of a public agency for the task, although some other means of insulating pension funds supposedly devoted to employee retirement purposes may be found.

Let me give just one recent example that came to my attention. In Columbus a pension plan terminated. It was found that the company's "contribution" for the past several years consisted of company notes—IOUs. The IOUs—nearly worthless because the company is out of business—were accepted by the bank which acted as trustee for the plan. By some odd chance, a high bank official was also a principal company official. It may also prove that the amounts of the IOUs were insufficient—but that would add insult to injury. *Perhaps* some company and bank officials and/or the bank may be made to make good these never-contributed amounts. But that is problematical and will be time-consuming. Meanwhile, the pension reserves are insufficient to pay retirees what is due them.

Such temptations ought to be prevented so that plan beneficiaries cannot be victimized.

Mr. BERNSTEIN. If every year an employee were given what represented his retirement earnings for that year and was sent to a racetrack and told that he had to bet on a 10 to 1 shot or a horse with longer odds and that would be the way he would provide for his retirement from the private sector, we would consider that a very irresponsible arrangement. If, in addition to that, the U.S. Government gave a tax subsidy to this arrangement, we would be aghast. And yet that is what we are doing with the private-pension system.

We are having each worker who is fortunate enough, to begin with, to be under a private-pension plan, bet against heavy odds that he will reach eligibility.

Bear in mind that the great bulk of private plans, as the committee and staff are well aware, are limited to individual companies and that to make it under a plan, an individual worker has to put in 10, 15, or perhaps 25 years of service with that one company and has to be age 65 in order to receive what is called the "normal" retirement benefit, or he has to have put in at least 10 or 15 years of unbroken service in order to receive a vested retirement benefit.

Now quite a few workers make it, but a tremendous number do not, given the dynamism of our economy.

My book analyses this aspect of plans in chapters III and IV. This is not a commercial; the book is out of print, at least for the moment. But it is available for consultation in libraries. Let me just give you some recent examples, taken practically at random since I was invited to testify, although I collect quite a few every year.

A New York Times headline toward the end of December 1969 reported that the Borden Milk Co. in New York was going out of the milk business entirely, although at the time it was the second largest milk supplier in the New York City metropolitan area. This was a company that had been in existence a very long time: 300 jobs gone.

In the best tradition of Studebaker, they shut down the plant just before Christmas.

Or take the announcement of NASA, the National Aeronautics and Space Administration, that it would be cutting 50,000 jobs in the next fiscal year—50,000 jobs—the bulk of which are in private employment, not Government employment.

Or take an article that appeared in Time Magazine, not noted for its demagogy, of a "purge"—its term—at Goodrich Rubber Co. The purge came about because an outside group had attempted a stock takeover. It failed, but the inside group was shaken up, and so it was trying to become more efficient.

How did it become more efficient? Well, it shut down a plant in Watertown, Mass: 950 jobs down the drain. As Time put it, the company was "thinning out"—how bloodless—thinning out white-collar and middle-management ranks.

In Columbus, Ohio, there are several other recent examples. This happens constantly.

Now, I point out that all of these occurred in the manufacturing sector, where there is a heavy incidence of this kind of plant shutdown, especially in what we used to call defense production, which happen to be areas of very heavy private pension plan coverage, where the pension impact, as Mr. Solenberger pointed out, can be very heavy.

An employee loses not only his job, but quite a few employees lose that continuity of employment upon which their pension benefits are based.

My statement points out that in the Republic Aviation shutdown—this is not the experience that Mr. Solenberger reported for UAW plants—but in the Republic Aviation shutdown in the early 1960's, 13,000 employees went off the rolls. 13,000. More than half of the men and more than two-thirds of the women had under 10 years on the job, which means that the most common, the most liberal pension vesting provision now in force, 10 years without an age requirement, and this is the most liberal vesting provision in general use, others are less liberal—would do them no good.

Or just to apply the vesting provision of the Boeing plant, which is unusually generous and which is in an appendix to the Schulz study, the great bulk of the Republic employees would not have ended up with vested benefits under that plan.

Now, it also happens that in this Republic situation, the bulk of employees who lost their jobs were not flighty kids. They were not the people who, in the conventional wisdom, provide the bulk of employee turnover, but they were people of settled habits in the age range of 35-to-55. Their reemployment experiences were studied by the Disarmament Agency. And it showed exactly what Dr. Sheppard's study of the Packard shutdown showed, that a tremendous number of them, particularly, were older workers.

What Is an Older Worker?

What is an "older worker"? Somebody over 40. They achieved only temporary employment, and there is no pension payoff there. Some achieved a manufacturing job. That is where the Disarmament study stopped, but the Sheppard study at Packard had a check a year later, and that showed that of the group that had achieved manufacturing employment, my recollection was well over half had lost those jobs. And those who had gotten jobs with the Chrysler Corp., all of them were off the job.

Now, what I seek to emphasize is the dubious nature of the proponents of private plans to this effect:

> It is true very large numbers of employees won't make it under the plan they are under. Don't worry about them. They will come home. They will achieve it under a later plan.

But in plant shutdowns that have been studied that tends not to be the case.

In large numbers of instances where plants are being shut down, they very often are older plants, the more antiquated plants. They also are manned by employees with more antique, more antiquated skills, which are not in heavy demand in the pension-covered area. When employees like that drop out of the manufacturing sector, their chances of achieving pension coverage in their new jobs is really quite slight, very small indeed.

This is not simply a blue-collar phenomenon. The rapid rate of conglomerate mergers has led to heavy turnover in managerial ranks. This may lead to some interesting responses in the pension areas, because as the managerial employees who have felt unaffected up to now feel the bite of turnover, of job change, as they experience in large numbers failure to achieve vested credits under private plans, there may get to be a little more muscle in the demand for earlier vesting. Blue-collar workers are not the only ones losing out on eligibility under plans as they now are designed.

I can report one small incident of a personnel director and his first assistant, in a case which I arbitrated last spring. Their plant was taken over as a going concern by another company, a very common phenomenon today, and practically no rank-and-file employees lost their jobs in that particular transaction. But the personnel director and his assistant changed jobs.

When I chatted with them recently at a luncheon at the Industrial Relations Research Association's local chapter, they said, "Yes, the heaviest turnover came in the white-collar jobs and managerial jobs." This is a relatively new phenomenon.

Now the protections the law gives against the recapture and reuse of funds by employers in situations of heavy employee turnover is something less than splendid. It is a fairly technical area. My prepared testimony indicates several instances in which, because of heavy employee turnover, there resulted what is known in the trade as actuarial gains. That is, the turnover was heavier than predicted when the plan was put together. This means that the employer may reduce his contributions for later years, which means, in effect, that he may be financing a pension system out of the lost pension credits of large groups of separated employees, the recapture for use of very large amounts.

In one reported case, the Curtis Publishing case, this wheeler-dealer financier claimed to have "found" $10 million of funds in the pension fund that resulted from large-scale employee separations.

For quite a long time social security is going to need supplementation if the elderly are not to be in the fix they are in today on such a large scale. I would suggest that if the private-pension system is to adequately perform its function of supplementing social security, we ought to have a new philosophy. Instead of sending the employees to the racetrack or instead of using the insurance analogy, we ought to try to translate pension plans into an effective system of saving.

The insurance design of pension plans is really quite simple. A group that is subject to a common hazard individually pay small amounts so that anyone who actually suffers the insured-against hazard can be paid a large percentage of his loss.

Now, in fire insurance, that makes a lot of sense, because very few people have fires in the course of a year. So for a small premium, you can be insured against most, if not all, of your losses.

The hazards against which pensions are designed are the drop of income from the loss of a current job or being the dependent of somebody who is employed and whose income stops because he is retired or because he dies before or after retirement—and fairly commonly if he becomes disabled.

Now, one of these hazards is going to happen to every employee. It is not like experiencing a fire. One of these things will happen to all of us. And if you are under a pension system, the plan ought to pay off to everybody who experiences, as he will, one of these hazards. But that is not the way the plans are designed.

So I would suggest that we need some mechanisms that will bring pension coverage as a supplement to social security within the reach of employees of small companies. Laudable as some of the multi-employer plans are, put together by the Industrial Union Department of the AFL–CIO and the International Association of Machinists, they don't provide adequate coverage. They will not enable the worker to move from job to job, even in the industrial sector, and they will not enable him to splice together pension credits he might earn in different companies.

The Need: A National Plan

What you really need is a national plan, and it need not be a governmental plan.

I have been trying to persuade people in the private-pension industry that there is a large untapped market here. But they are not very venturesome. They seem to prefer the cozy elite market they now have to getting out and hustling after a larger market that needs serving, which is primarily in the small-company area.

As table 1 would indicate, the life expectancy of small companies is not very good. (See prepared statement, p. 1479.) The great bulk of company failures occurs before companies are 10 years old. And, indeed, the great bulk of those occur before companies are 5 years old. So even if you are able to get pension- coverage for these people, employees of such companies—and they tend to be small—and even if So even if you are able to get pension-coverage for these people, would still be out of luck, they would not have the requisite service.

A large number of people get employed by companies of this sort and should not be counted out of the pension system. What I think we need is a national group plan which would provide coverage on a low overhead, boiler plate basis to small companies, in which companies could buy in at any level of benefits for their employees with very early vesting, perhaps immediate vesting, and these credits would cumulate so that every year of service counted for something toward a pension.

With sufficiently low-cost coverage, this could result in very wide adoption of pension plans which would mean that more and more years of service would result in effective pension credits, which in turn would mean the unit cost for each year of coverage would be lower.

Now, every discussion I have ever heard, except my own, of vesting says how expensive it is. But that analysis overlooks the fact that if we can redesign the pension system so that almost every year of work would result in effective pension credits, the unit cost would be down. That is ordinarily the way employers figure production costs—not the lifetime cost. It is the unit cost that counts. But we have got to get started.

Now, perhaps the only mechanism for making this possible is a compulsory mechanism. I must say I have not been impressed with the spirit of reform among those who have the most intimate connection with pension plans—insurance companies, banks, many unions. Indeed, the bankers who have not been through the Medicare fight, which was chastening to the insurance companies, are really quite uninterested in pension reform.

I find that insurance companies are much more amenable to reform. They don't necessarily mean what I mean by "reform," but they are interested in improvement. A large sector of the actuarial fraternity recognizes the shortcomings of the private plans and is interested in improvement.

National Pension Clearinghouse

I think the ultimate in improvement would be a national pension clearinghouse, where, in addition to this group coverage that I have suggested, anyone exiting from a pension plan could take the value of his credits so that they would not only be preserved, which is what vesting does today, but they could participate in any economic growth that the economy at-large experiences.

I don't think it is sufficiently understood. Mr. Solenberger mentioned it. He gave an example of an employee being separated from a job, say, in his 30s, I think his example was. He said, what will his benefits be worth at retirement age?

Now, when an employee gets a vested credit today, what it means is that he has a benefit that is figured on the formula at the time he is separated from employment, which if he lives will be paid to him at retirement age or perhaps early retirement age, typically 62. During that interim period the plan for employees who stay on the job may be improved many, many times over. The employee with the vested credit does not participate in those changes.

Even under plans where benefits are renegotiated for retirees—and I agree with Mr. Solenberger that that is the minority situation—I have never seen a renegotiation or heard of a renegotiation of vested credits.

However, if the value of earned credits were to participate in a national group plan as the economy grows more and more productive—and happily it does, and it seems as if that will continue to be a salient feature—those credits by investment would participate in the growth rather than being frozen. Today's vested credits are known as "frozen," and indeed they are. They are frozen without even that slight expansion that you get when water freezes into ice.

Moreover—and this is extremely important—I have never heard of a vested credit that could be used for disability, and yet disability is a very important hazard to workers before retirement age—and it ought to be available for this purpose. If a retirement plan for an active worker provides disability, then we ought to be translating vested interests into potential disability credits. And a national clearinghouse could do that.

I have not by any means, either in this summary—and it was a summary—or in the full text, addressed myself to all of the important questions that Mr. Schulz raises in his committee print.

I would like to offer for the record an article of mine which appeared in the "Journal of Risk and Insurance" in March 1967, which does address itself to quite a few points that I have not covered today.

(See appendix C, p. 1564.)

Mr. ORIOL. Does that complete your statement?

Mr. BERNSTEIN. That is it.

Mr. ORIOL. You, in your paper and in your statement, mention the high risk in defense-related—or military-related industries. And now it has become a matter of administration policy, and certainly of congressional intent, to reduce military spending even more.

Would you say that it is safe, then, to expect that with this reduction in spending we will have even more of what you describe?

Mr. BERNSTEIN. Yes, I would think so.

Military aircraft production contains example after example of plant shutdowns over the last 15 years of plants that had been in operation 2, 3, 4, 5 years.

Now, as the Defense Department tightens expenditures, one can expect that there will be major shutdowns. The life of weapons really is rather short. They continue to exist, but they become obsolete. So production facilities, which often are designed for a particular weapon, go out of business when that weapon is replaced, phased out, or just taken off the drawing boards. This happened in many areas other than aircraft, as well.

Mr. ORIOL. Dr. Schulz.

Dr. SCHULZ. Could I expand on Mr. Oriol's question?

Recently there has been a lot of writing about the industrial-military complex. One interesting economic fact which has come to light is the extent to which the Defense Department protects defense-related industries—protects them from risk by providing them with plant and equipment, providing them with working capital, and providing them with contracts that insure that they make an adequate profit.

Of course, the implication of this is that if something happens and a corporation has to close down a plant, it doesn't have much invested in it. The Government has provided most of the necessary resources and, in effect, all the corporation is providing is the entrepreneurial talent and the workers.

Now, do you think that if the Government is going to continue to take the risk out of participating in defense production for the entrepreneur that perhaps it should be equally concerned about assuming the risks for the workers who take jobs in such industries?

Mr. BERNSTEIN. I think the last thing the Defense Department would provide anybody with is immortality.

PROTECTING THE WORKER AGAINST LOSS

I would put the matter much more broadly, Jim. It seems to me, yes, that there is a strong argument to be made that if the entrepreneur is protected against loss, certainly the workers ought to be. I am not only concerned for defense workers, I am just pointing out the defense sector is an area of heavy pension plan concentration. I am concerned that people are being fooled. People are being led into a complacency, that they have retirement expectations that will not eventuate. They are living, many of them, to change my racetrack figure, on the slopes of Vesuvius, and this Vesuvius will continue to erupt.

I think that the Government, which heavily subsidizes private plans, has an obligation to make sure that they are as good as they can be or to withdraw the subsidy.

Now, I make one other point there. It is argued, as you point out in your study, that employers adopt plans in order to hold employees. They use it as a device for immobilizing employees.

Well, I say if they do that for their private purposes, let them pay for it. Such a purpose ought not to be subsidized. I can't see paying a subsidy for making the economy less efficient and at the same time having as a side effect disappointed pension expectations as well.

Mr. ORIOL. Given this concern about the impact of plant closings, especially on a shaky Vesuvius and of companies going out of business, do you see the need for a research program possibly by the Department of Labor, possibly by the private organizations, or possibly both, to study the retirement-income patterns, income problems created by such closings? In other words, can action be taken in advance of this foreseeable change?

Mr. BERNSTEIN. Well, you know, everybody makes very important decisions on the basis of having less than complete knowledge. I would say that so far as private-pension plans go, we know that there will be a certain mortality among plans.We know that there will be a high rate of separation. However, we may not know the exact rate. We do know that in our dynamic economy so many changes take place in such a short period of time that there are bound to be large-scale separations.

One knows that when a new plant goes up that it is going to shut down, it is not going to continue in that job. When that Harvester plant went up, I don't know how long ago, one could guarantee that some day it was going to shut down or at least go out of the line of production in which it was then engaged. It might change ownership. That is such a common feature of our economy that I don't think we have to study it very hard to start to see we ought to guard against the pension impact.

There are ther aspects of it too that have to be guarded against.

Mr. ORIOL. Another question, I know Dr. Schuz is still reeling from being called optimistic. In fact, I believe that you regarded his first projections as based on overly optimistic information at one point. So I wonder whether you are basing your description of the projections as "optimistic" on the method used or whether you just don't expect major changes in policy.

Mr. BERNSTEIN. No, I am talking about Jim's study that he did as his dissertation and then for the Department of Health, Education, and Welfare, the Social Security Administration, where quite a few of his assumptions were more optimistic than I think is justifiable.

For example, as I recall, he assumed that anybody who was separated from a job in an industry that had a multi-employer plan would find employment under that plan. Now, that, I think, is extremely optimistic, particularly when you are given multi-employer plans in such hazardous industries as the maritime industry, where there are economic hazards and health hazards. Even though there is 15-year vesting, it is very hard for a guy going to sea to put in those 15 years. It is hard work. It is hard living, and there are a lot of people that have to get out of that line of work and get into something that is a little less taxing.

So that assumption, just as an example, was overly optimistic.

I think he also assumed that someone leaving an individual employer plan would end up under another plan, if my recollection is accurate. I think that was wholly unrealistic and really cannot be squared with Dr. Sheppard's study, the Disarmament Study, and the other instances I discussed in my book.

Mr. ORIOL. You said that your national clearinghouse could be an all-private undertaking or some mixture of private and public enterprise and that Social Security could perform the function of keeping the information on the rights of each pension recipient or potential pension recipient.

Could the Social Security Administration fall into your proposal here?

Mr. BERNSTEIN. I suggested that in my book, which came out in 1964—and I have never heard any demurrer that it could not be done, that there was any technical reason for not doing it. It is ex-

company names, let alone in ownership arrangements, keeping track of one's employment credits becomes extremely difficult.
tremely important, because given the tremendous changes just in

So at a minimum it would seem to me we need a vested-benefit-registration system to make sure that people cash in on whatever benefits they are entitled to. Not everybody is going to be a loser.

Mr. ORIOL. Have you put this proposal in any way to the Social Security Administration for an opinion on technical workability?

Mr. BERNSTEIN. Well, I see people there very often, and they have never taken any issue that it is beyond their competence. I have never heard any objection. It would have a slight program cost. The Social Security Administration is very zealous not to incur costs that do not have a Social Security justification, so there might be some slight charge made to companies that avail themselves of such a service. It would be extremely small.

Mr. ORIOL. Do you have any questions?

Dr. SCHULZ. Yes.

Some advocates of private pension plans argue that the way to strengthen private pension plans is to limit the expansion of Social Security benefits. As I tried to argue in my introductory remarks, I feel it is exactly the opposite.

I was wondering how you felt about this matter.

Mr. BERNSTEIN. I think that is one of the phoniest arguments going. It is quite true that private pension plans have come into being in part because of the inadequacy of the Social Security System. They got their biggest boost in the late 1940's. They got the major initial start-up in World War II in part due to the excess profits tax, in part due to wage and salary restraints.

Then toward the end of the 1940's, the major unions became concerned that their members who were retiring were getting a pittance in Social Security benefits. Both the Steelworkers and the United Auto Workers were pressing very hard for private pension plans, although their great preference was for an adequate Social Security System. They were sped on by the fact that the United Mineworkers had achieved a negotiated plan in 1946.

You will recall that in 1949 the Fact Finding Board appointed by President Truman in the steel case recommended a private pension plan in the steel industry. And one of the major reasons for doing so was this then inadequacy of the social security benefits. At that point the average retiree's benefit, as I recall, was $27 a month. A quick calculation will show that that is less than a dollar a day.

Now Social Security has improved dramatically since starting in 1950. It is still far from adequate, but the great strength of the Social Security System is that it is in fact almost universal and it is much more responsive to changes in the economy than private plans.

This problem of the erosion of retirees' benefits is a critical one. While not perfectly solved in Social Security, that system is much more responsive than private pension plans generally are to the problem of what happens to the benefit after retirement.

PRIVATE PLANS: A SUPPLEMENT

It seems to me that private plans can perform a very valuable job of supplementation. I think they ought to be doing it on a more ambitious basis. But to say that we should hold back social security, which is available to practically all workers, except State employees in the State of Ohio, so that private pension coverage will not be discouraged, when the most avid supporter of private pension coverage would not claim anything close to universality as a goal, makes no sense to me at all.

It seems to me we ought to maximize the benefits available under the universal system and then have the private system supplement as best it can and more ambitiously than it does.

Dr. SCHULZ. I would like to ask you about the trend in vesting provisions within private pension plans. What changes have you seen taking place since you wrote your book? When I wrote the background paper for the committee, I had great difficulty locating information which would indicate just what changes have taken place. And yet I read many assurances by people working in the private pension field that private pension plans are getting better and, presumably, getting better with regard to this particular aspect.

Have you come across any information which indicates a significant improvement in vesting provisions within private pension plans?

Mr. BERNSTEIN. In vesting?

Dr. SCHULZ. Yes.

Mr. BERNSTEIN. The Bureau of Labor statistics studies are the best source and all the indications there are that the improvements have been really rather slight. As I indicated in my main presentation, the United Auto Workers have pretty much set the pace here by the elimination of the age requirement and reduction of 15 years' vesting requirements to 10 years'.

That is about the best in common use in a very large number of plants. I can't tell you what percentage, but a very large number of plants still have yet to come up to that level. So that represents something of an improvement, I would say. But the improvement has been slight and far less than is needed given the dynamism of the economy.

Dr. SCHULZ. My last question is this: You have been criticized and characterized by many people as being anti-private pensions. I think this is an unfair criticism, especially after reading what you have written.

Mr. BERNSTEIN. It does help to read it.

Dr. SCHULZ. My question is simply: Are you against private pensions? That is, what do you see as the role of private pensions in the United States?

Mr. BERNSTEIN. Well, I didn't invest 5 years of my life merely in writing a book on the subject simply to debunk private pension plans. Quite the contrary. I thought they have had an important role to play. I just think the role the proponents of private plans have cut out for themselves really is too modest. That is my principal objection. And the minority that will benefit are those who are best off to begin with.

Now, those being best off may not be extremely well off. But we have to bear in mind that private pension plans tend to be found associated with high-pay employment and the gaps in coverage are in lower-paid employment.

I would like to see greater attempts at expanding coverage and expanding what I call "effective coverage," not merely the number of people who at any one time are in the plan but people who will actually achieve a payoff. Despite the fact that I have this more ambitious notion of what private plans can do, I must say I am not very optimistic that they will perform that role.

Mr. ORIOL. In your formal paper you heartily agree with Dr. Schulz's report and its comments about the Bureau of Labor Statistics' reports on planned benefits. In fact, you even called the present use of that statistics misleading because of certain conclusions they draw or don't draw.

Mr. BERNSTEIN. Yes, sir.

Mr. ORIOL. If the Department of Labor representative were here today, we might very well be told that the reason they do not do this is because the funding is not adequate, perhaps. We have been told that before.

Do you feel that perhaps congressional direction might be needed here in the form of new legislation, not only to make use of what is available but also to use that information for perhaps formulating new Federal legislation in this area? Do you think if we spelled out some legislation like what we want and how it could be used that this would be constructive?

Mr. BERNSTEIN. Well, I think, really, that is going after a mouse with an elephant gun. It seems to me if a few well-placed Senators and Members of the House, say, on the Labor Committee and the Committee on Aging, would make their views known to representatives of the Department that they just don't like what they are getting, that they might get something else.

I worked at both ends of the Hill, and I found at the bottom of the Hill they are extremely responsive to such views.

Now, on the matter of cost, it is an absurdity, if I may say so, at least in some areas—although there are some things that Dr. Schulz is suggesting be done that would require the expenditure of funds—I don't think very large amounts really—but some funds.

Just to take one of the points which I have been criticizing them for 6 years now, the way they report benefits. As Dr. Schulz points out, and as I have pointed out for a very long period of time, BLS takes just one part of the benefit formula, which happens to be the high part, and multiplies that by years of service, without taking into account that many benefit formulas have lower benefits for earlier service. They say they can't compute benefits on the entire formula because they don't have all the earlier plans.

Well, I can tell you that I took a "B" law student and gave him the BLS report, its summary of 100 negotiated plans. I said, "This is what they have done. Won't you please go do it differently using the formula data in the report itself?" Two days later he was back with the recomputed benefits.

Mr. ORIOL. What could an "A" student do?

Mr. BERNSTEIN. At least as well.

So that is not such a fantastic trick. It seems to me that there is a certain understandable bureaucratic reluctance to be very venturesome in this field, but it would seem to me that with some encouragement from this Committee, the Labor Committee, and the Appropriations Committee, if interest were shown in the realities of the pension system, BLS would find a way without very great difficulty in finding out what benefits being paid actually are and will be.

Let me give you one other example. One of the studies that was done by BLS was on joint and survivor options—which was a valuable thing to have. I forget how many plans were studied, but quite a few, and they were catalogued. I inquired what is the practice on the election by employees of the survivor option, and they said, "Oh, we don't do that sort of thing. We don't look into that."

Well, there is a little bit of information. The UAW itself, when it had a joint-survivor option, reported that very few people—practically no one—made the election.

Now, I think that is more important to know than what precisely the plan provisions are. It is important to know that certain plan provisions result in no election, so that, in effect, the private plan does not have a survivorship benefit. That is important enough.

So their study was not useless, by any means, but what we really have to know is, what do people do under these plans? And there BLS has washed its hands of finding out.

I think we have a tremendous amount of data in the report forms that so many plans can file which remains to be mined.

Mr. ORIOL. Any other questions?

Well, Mr. Bernstein, I think it is clear that your presentation has been a stimulating and very helpful addition to our record. And we are most grateful. Thank you very much.

(Subsequent to the hearing, the following letter was received from the witness:)

COLLEGE OF LAW, OHIO STATE UNIVERSITY,
Columbus, Ohio, June 17, 1970.

DEAR SENATOR WILLIAMS. When I appeared before the Special Committee on Aging in February, I warned that the present design of private pension plans threatened a massive loss of pension credits in defense-related industry. The high scale of lay off in defense-related industry—as high as 20 percent in some areas—just announced by the Bureau of Labor Statistics indicates that the process is under way.

It is dubious that many of these separated workers will have anything to show for having participated in pension plans despite the fact that, in effect, employer contributions to plans result in lower take-home pay.

This phenomenon is very serious because a very large percentage of pension-covered employees are in defense industry.

With rare exceptions, private pension plans require 10 or 15 years of service with an employer before a separated employee will be eligible for a pension benefit. Due to the off-again, on-again nature of weapons production, few of those being separated can be expected to have achieved the requisite service. Some may be painfully close, but out of luck. Only today I heard of one man employed by an aviation company who is being separated one month shy of the required 10 years.

While I am morally certain of these baleful consequences, the Committee may want to verify this wipe-out of pension credits during the current wave of lay offs and document the extent of it. It should not be difficult to gather data on the number of employees involved, their age and service and the vesting requirements of the plans under which they have worked.

As I have long urged, we need redesign of plans to prevent the double catastrophe of job loss and pension credit loss.

I would appreciate it if this letter could be appended to my testimony in the printed record.

Sincerely,

MERTON C. BERNSTEIN, *Professor of Law.*

Mr. ORIOL. We will meet here again tomorrow morning at 9:30.

(Whereupon, at 1:20 p.m., the committee recessed, to reconvene at 9:30 a.m., on Wednesday, February 18, 1970.)

APPENDIXES

Appendix A

PENSION ASPECTS OF THE ECONOMICS OF AGING: PRESENT AND FUTURE ROLES OF PRIVATE PENSIONS

A WORKING PAPER IN CONJUNCTION WITH THE OVERALL STUDY OF "ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE"

PREPARED FOR THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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LETTER OF TRANSMITTAL

Senator HARRISON A. WILLIAMS, Jr.,
Chairman, Special Committee on Aging,
U.S. Senate.

DEAR SENATOR WILLIAMS: You have asked me, as a member of the task force which reported to you earlier this year on the economics of aging, to submit a supplemental working paper on private pensions and their relation to income maintenance problems of the elderly. Transmitted herewith is the paper which you requested.

Although I take complete responsibility for the contents, conclusions, and any errors contained in the paper, I wish to acknowledge the advice and assistance of a number of experts in the field of private pensions. These persons are:

Miss Pearl Charlet, manager of research, Edwin Shields Hewitt Associates.
Mr. Walter W. Kolodrubetz, Office of Research and Statistics, Social Security Administration.
Mr. Donald Landay, Chief, Division of General Compensation Structure, Bureau of Labor Statistics.
Mr. Theodor Schuchat, retirement editor, North American Newspaper Alliance.
Mr. Alfred Skolnik, Chief, Interprogram Studies Branch of the Office of Research and Statistics, Social Security Administration.
Mr. Edward W. Spannaus, research associate, Institute of Industrial Gerontology, National Council on the Aging.
Mr. Arnold Strasser, Director, Employee Benefits and Annual Earnings Projections, Bureau of Labor Statistics.

In addition, I wish to acknowledge the fact that Miss Dorothy McCamman, consultant to your committee, provided a great deal of assistance in helping me organize and execute this paper in the relatively short time available.

All the above persons met in Washington in September to discuss private pension developments in the United States, especially in relation to the problems raised in the task force paper, "Economics of Aging: Toward a Full Share in Abundance." The group attempted to identify a number of specific private pension issues which were thought to be crucial in evaluating the present and future role of private pensions in the aged income maintenance process.

In addition, various members of this group provided me with ideas and suggestions for the paper and improvements in the paper as it moved through its various stages toward final development.

Also, I would like to acknowledge the fact that sections II–A and III–A of my paper are updated excerpts from articles by Miss Charlet and Messrs. Skolnik and Kolodrubetz which originally appeared in the Joint Economic Committee compendium, "Old Age Income Assurance."

While the paper does not discuss all the important issues regarding the role and operation of private pension plans. I hope that it is sufficiently comprehensive (and provocative) and, hence, will serve as a basis for further discussion and inquiry in this area by your committee.

JAMES H. SCHULZ,
*Associate Professor of Economics,
University of New Hampshire.*

PREFACE

For its study of the "Economics of Aging: Toward a Full Share in Abundance," the U.S. Senate Special Committee on Aging has already issued one working paper which surveys the major issues and several others dealing with specialized subjects.[1] Each document has made a major contribution to the overall committee study.

Today, the committee is publishing another study on a subject of utmost importance to its deliberations on present and future trends in retirement income. As Dr. James Schulz makes clear in his letter of transmittal, this latest working paper has been written with the advice of several knowledgeable persons, but the actual drafting and conclusions are his.

Dr. Schulz is especially qualified to deal with pension aspects of the economics of aging. In 1968, his projections on future pension income trends filled a much-needed information gap and showed a clear-cut need for far more widespread attention to the subject. Later, while a member of the first task force which reported to this committee on the economics of aging, Dr. Schulz again provided valuable information on pension trends while calling for more information on that subject. His fellow task force members agreed with him about the need for additional exploration in this area, and the Committee on Aging is now preparing for hearings next month along the lines recommended by the task force.

Dr. Schulz's working paper will serve as a springboard for much of the discussion at the hearing because he has, once again, provided disturbing evidence on at least two important points:

> One. That private pensions, while performing a major service to the economy and to millions of Americans, now serve far fewer than is commonly assumed and will continue to fall short of expectations unless greatly improved.
>
> Two. And that many common assumptions about the level of private pension projection are based more on wishful thinking than upon hard fact.

The need for hard facts becomes more and more evident as Dr. Schulz presents his findings. While neither he nor the Committee on Aging offers recommendations on pension coverage at this point, Dr. Schulz has performed an important service by emphatically telling us why we

[1] Part 1. Survey Hearing, Washington, D.C., Apr. 29–30, 1969.
Part 2. Consumer Aspects, Ann Arbor, Mich., June 9, 1969.
Part 3. Health Aspects, Washington, D.C., July 17–18, 1969.
Part 4. Homeownership Aspects, Washington, D.C., July 31–Aug. 1, 1969.
Part 5. Central Urban Area, Paramus, N.J., July 14, 1969.
Part 6. Retirement Community, Cape May, N.J., July 15, 1969.
Part 7. International Perspectives, Washington, D.C., July 25, 1969.
Part 8. National Organizations, Washington, D.C., Oct. 29, 1969.
Part 9. Employment Aspects, Washington, D.C., Dec. 18–19, 1969.

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must have a more precise answer to the question he raises in his opening paragraph:

> What should be the future role played by private pension plans in enabling persons to obtain what they judge to be an adequate level of income in retirement?

HARRISON A. WILLIAMS, Jr.,
Chairman, U.S. Senate Special Committee on Aging.

Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions

(By James H. Schulz, Ph. D., Associate Professor of Economics, University of New Hampshire)

INTRODUCTION

The U.S. Senate Special Committee on Aging, through a series of working papers and hearings, has sought to survey the extent of our knowledge regarding the economic security of the elderly population. The committee has looked at the economic situation and problems of today's elderly. But, most importantly, the committee has also focused attention on the situation which will prevail in the future. It is adequate knowledge about this future situation which is the key to developing sound social policy in the area of aged income maintenance.

In "Economics of Aging: Toward a Full Share in Abundance,"[1] a task force surveyed the whole general area of income maintenance as it relates to the elderly. In addition to providing information about the present characteristics of the aged population, their economic position, and their needs (and projections for the future aged), the task force working paper surveyed various potential means for improving the economic situation of the aged.

One such means considered was the expansion and broadening of private pension plans. Concerning such plans, the task force highlighted the following facts:[2]

1. Even under earlier projections now known to be optimistic, only a third to two-fifths of all aged persons in 1980 are expected to have income from private group pensions.
2. The fact that private pension coverage is concentrated among higher paid workers will mean that those in the greatest need in old age will be least likely to receive private pensions.
3. Virtually none of the thousands of private pension plans makes provision for adjusting the benefit of the retired worker to increases in living costs.
4. Private pension plans normally provide little or no protection for the survivors of covered workers.

This paper moves beyond the initial observations of the task force (which were by necessity limited and general in nature) and at-

[1] U.S. Senate Special Committee on Aging. "Economics of Aging: Toward a Full Share in Abundance," 91st Cong., first sess. (Washington, D.C.: U.S. Government Printing Office, 1969). Out of print. Reprinted as app. I of Survey Hearings on "Economics of Aging: Toward a Full Share in Abundance," pt. I, pp. 149–228.
[2] *Ibid.*, pp. 38–39.

tempts to provide additional discussion about a number of important issues in the area of private pensions. Once again, however, the discussion is not comprehensive in nature but is limited to those issues which are in the judgment of the author particularly crucial in evaluating the present and future income maintenance situation of the elderly.

I. INCOME MAINTENANCE AFTER RETIREMENT

Of all the numerous issues surrounding the establishment and administration of private pension plans in the United States, one issue stands out: What should be the future role played by private pension plans in enabling persons to obtain what they judge to be an adequate level of income in retirement?

A. The Three-Way Choice

The task force has stated: "Every American—whether poor or rich, black or white, uneducated or college trained—faces a common aging problem: How can he provide and plan for a retirement period of indeterminate length and uncertain needs? How can he allocate earnings during his working lifetime so that he not only meets current obligations * * * but has something left over for his own old age?"

This is the central issue. It is not so much a question of giving older Americans rights or giving older Americans what is their due or fulfilling an obligation arising from the fact that older Americans were born before us. Rather the provision of adequate economic resources in old age requires intelligent planning to assure a more even distribution of each family's income over its lifetime. This, however, is not an easy task—given the uncertainties and complexities of retirement planning and the vicissitudes of the economy.

It is becoming increasingly apparent that our society as a whole must come to grips with two questions: (1) What standard of living do we, the young and nonretired, want when we get old and (2) having decided that, we are faced with the three-way choice: What should be the respective roles of the individual through personal saving, private industry through private pensions, and government through public pensions in planning and providing for that standard of living in old age?

Given the needs of today's aged Americans and prospects for rising retirement expectations in the future, some people might suggest that we really will never be able to develop adequate programs for the aged because there are so many other competing social needs. The major economic issue is not, however, whether—in the face of other needs such as general poverty, urban blight, and education—we can have adequate programs for the aged. Rather, the issue is better posed as to whether we want a higher standard of living in our younger years at the expense of a lower standard during retirement. This issue is extremely difficult to deal with because we are faced essentially with a question of how to provide ourselves with a satisfactory level of income after work stops in a society which has traditionally oriented its income provision almost solely to the performance of work.

To better provide for old age, people must either save more during their working years or they must develop institutions which will provide each succeeding aged generation with the required amount of income transfer from the working population to the retired or semiretired. These options mean either higher taxes, higher private pension or insurance contributions, or higher personal savings in the working years.

B. What Role Private Pensions?

John McConnell has succinctly summarized the commonly voiced view as to the relative roles of public pension, private pensions, and personal saving as follows:

> When the Social Security Act was passed, the purpose of old-age insurance was said to be the provision of a floor of income support. It was expected that individual savings would supplement the basic OASDI benefit. Following the rapid expansion of private pension plans during and following World War II, it became quite common for both the proponents and opponents of old-age insurance to refer to the American system of income maintenance as a three-legged stool, or a three-layer cake, although the pitiful nature of the income received by most older people from all sources made the analogy of the cake seem something of a mockery. It is quite clear that the spread of private pension plans has confused the role of OASDI and of private pensions and savings. There is a tendency to argue that OASDI should provide only minimum subsistence, and that private pensions will supply enough when added to OASDI to equal an adequate income. Private saving will assure a comfortable existence. This view of the three elements is reflected in the formulas used to determine the amount of private pension benefits, since the private benefit is superimposed on the OASDI benefit to fulfill the popular formula which yields 65 percent of average wages for the low-income group scaled downward so that combined benefits will yield 50 to 35 percent for the various gradations of the high-income group.[3]

But serious controversy continues to exist over what should be the "floor" provided by public pensions. John McConnell continues in his article:

> * * * it is impossible to assume that the population 65 will generally receive an *adequate* retirement income through a combination of OASDI and private pension benefits. Faced with the prospect that not more than 20 percent of those over 65 (25 percent of all beneficiaries of OASDI) will receive private pension benefits, if the Nation is serious about providing an adequate income for older retired people it will have to do so through a greatly improved public old-age insurance system."[4]

[3] "Role of Public and Private Programs in Old Age Income Assurance," in U.S. Joint Economic Committee, *Old Age Assurance*, pt. I, 90th Cong., 1st sess. (Washington, D.C.: Government Printing Office, 1968), p. 45.
[4] *Ibid.*, p. 46.

Contrast McConnell's statement with the views of Robert Tilove, and the controversy stands out in harsh reality:

> There are schools of thought that place little value on private pension plans. The report entitled "Old-Age Income Assurance: An Outline of Issues and Alternatives" submitted to the Subcommittee on Fiscal Policy of the Joint Economic Committee expressed the view that that aggregate of private plans was not well suited—from the standpoint of equity or efficiency—to accomplish the public purpose of providing adequacy of income in old age and that "one may suspect that the cost of the system to the Nation exceeds by a considerable margin the benefits to the aged." The viewpoint implied was that whatever private pension plans claim to accomplish in terms of public good could be accomplished better by a public program. Overlooked by that approach is the fact that what has been accomplished by employers and unions in supplementing social security with private plans was not accomplished, and might never be accomplished at all, through legislation. It also overlooked the value for a democratic, pluralistic, and dynamic society of arrangements that can be developed outside of government, on the initiative of employers and unions, and without depending on majority consensus.[5]

Thus, the critics of private pension plans argue that the benefits are currently inadequate and, more importantly, that even if they were adequate, they would not be available to large numbers of retired persons and their families who did not achieve eligibility while working. The defenders of private pension plans have little to say about ultimate coverage and the income maintenance alternatives of nonplan members; instead, they argue that private plans are rapidly improving for those employees covered and that such plans provide coverage which responds to needs which are unmet by present (and possibly future) public pension systems.

[5] Income for the Elderly Through Work-Life Extension, Asset Conversion, and Pension Improvement," in U.S. Joint Economic Committee, "Old Age Income Assurance," part I, 90th Congress, 1st session (Washington, D.C.: Government Printing Office, 1968), p. 35.

II. THE GROWTH AND RATIONALE FOR PRIVATE PENSIONS

In order to help evaluate the role which private pensions can or should play in the U.S. system of retirement income maintenance, we must look at the system as it exists today and its prospects for the future. This must be done against the historical background of private pension plan growth in the United States and the various tenets which have been developed to justify this growth. "Assessment of how well plans work depends upon what they are supposed to do, and this depends largely upon the purposes of those who establish and support them." [6]

A. The Current Private Pension System and Its Growth [7]

Although the first formal private pension plans for industrial workers were introduced about a hundred years ago, it is only since 1940 that they have emerged as a major economic and social factor in the economy. While some growth took place from 1900 to 1940, most of the early plans were initiated by employers in large enterprises, with a few plans established by unions. The employer plans were typically noncontributory and unfunded, and they carefully avoided establishing "rights." The pension was usually discretionary and was considered a gratuity.

During the 1920's, insurance companies began to sell group annuities, and following the establishment of social security there was a considerable upsurge in the establishment of insured plans as supplements to the public program. Between 1940, when private plans included about 4 million persons, and 1950, the number of persons covered more than doubled, to almost 10 million. This growth was, in large part, attributable to favorable Federal tax laws, wartime wage stabilization measures, and high corporate profits during the war which encouraged the growth of pensions and other fringe benefits as a substitute for wage increases.

The surge in introduction of plans covering large numbers of workers after 1949 resulted from a number of interrelated influences. First, union pressures for economic security provisions increased after the favorable decision by the Supreme Court in 1949 supporting the National Labor Relations Board's determination that pensions were a proper issue for collective bargaining. In addition, the Steel Industry Fact-Finding Committee in 1949 included the recommendation that the industry had a social obligation to provide workers with pensions. Second, wage stabilization policies during the Korean con-

[6] Merton C. Bernstein, "The Future of Private Pensions" (New York: Free Press, 1964), p. 9.

[7] For an excellent summary of the historical evolution of private pension plans see Pearl E. Charlet, "Public Policy and Private Retirement Programs—A Suggestion for Change," in U.S. Joint Economic Committee. "Old Age Income Assurance." pt. I. 90th Cong., 1st sess. (Wahington, D.C.: Government Printing Office), pp. 170–203.

flict, as well as continued favorable tax treatment, provided incentives to establish qualified plans. Development and expansion of negotiated multiemployer pension plans, particularly in construction, transportation, and trade and services, opened up coverage to millions of workers in smaller firms. Many of the plans established during the last 15 years were negotiated plans for large groups of production workers, so the private pensions spread coverage and potential benefits to mobile, lower income worker groups.

A1. *Coverage and Beneficiary Trends*

More than 28 million persons are covered by private pension and deferred profit-sharing plans today, virtually all of whom are also building up credits under the social security system (table 1). In the 18-year period since 1950, when pension plans first became a major issue in collective bargaining, the coverage almost tripled; the absolute growth amounted to 18.8 million workers. However, there has been a drop in the rate of growth; the last 8 years accounted for only 7.4 million of the increase.

TABLE 1.—ESTIMATED COVERAGE UNDER OASDHI AND PRIVATE RETIREMENT PLANS, DECEMBER OF SELECTED YEARS, 1940–80

[Numbers in millions]

Year	Paid employment (including self-employment and Armed Forces)	Private wage and salary workers [2]	Covered under OASDHI [1] — Total: Number	Covered under OASDHI [1] — Total: As percent of paid employment	Covered under OASDHI [1] — Wage and salary	Covered under OASDHI [1] — Self-employment	Covered under private retirement plans — Number	Covered under private retirement plans — As percent of private wage and salary workers
1940	47.1	33.5	30.4	64.5	30.4		4.1	12.2
1945	57.3	38.1	38.9	67.9	38.9		6.4	16.8
1950	61.3	43.5	40.4	65.9	40.4		9.8	22.5
1955	65.7	47.8	56.2	85.5	49.5	6.7	15.4	32.2
1960	67.1	50.1	59.0	87.9	51.8	7.3	21.2	42.4
1965	74.5	54.8	66.4	89.1	60.1	6.3	25.4	46.4
1966	77.0	57.3	69.0	89.6	62.8	6.2	26.4	46.1
1967	77.9	58.2	69.9	89.7	64.1	5.8	27.6	47.4
1968	79.4	59.8	71.3	89.8	65.4	5.9	[3] 28.6	47.8
Projections: [4]								
1980	94.6	72.9	85.9	90.8			42.3	58.0

[1] Coverage in effect, including State and local employees for whom coverage has been arranged, railroad employees, and all members of Armed Forces.
[2] Full-time and part-time workers, annual average.
[3] Preliminary.
[4] President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, "Public Policy and Private Pension Programs," January 1965, app. A, table 2.

Source: Social Security Administration.

Private retirement plans are of two types—pension and deferred profit-sharing plans. A private pension plan is usually defined as one established by an employer, union, or both, that provides determinable cash benefits for life to qualified workers upon retirement. Benefits are usually financed by regular contributions by the employers and, in some cases, by the employees. On the other hand, contributions and benefits under deferred profit-sharing plans are not known in advance but depend upon the profits of the employer. Most workers are covered by pension plans. Several million workers, however, are covered by deferred profit-sharing plans either exclusively or as a supplement to a pension plan.

About one-half of the over 28 million workers covered by private retirement plans are under collectively bargained plans that have been negotiated between management and unions. The substantial number of workers belonging to plans under collective bargaining results to a large extent from multiemployer plans which cover more than a third of the workers under collectively bargained pension agreements. Multiemployer plans are generally organized on an industry basis to meet situations where, for example, employers are too small to set up their own plans. Under these plans, all employers contribute into a pooled central pension fund from which their employees, who may have shifted from one employer to another in the industry, draw pensions. These plans covered fewer than 1 million workers before 1950. In the late fifties, they were extended in many industries, so that by 1960 they included over 3 million persons. At present, over 5 million workers are in these plans.

A high proportion of those potentially within reach of private pension coverage have already been included. Since 1950, the annual growth in coverage has exceeded the growth in the labor force and the cumulative effects of this difference have been substantial. The proportion of wage and salary workers covered by pension plans in private industry has increased by 1–2 percentage points a year since 1950, and now equals about 48 percent of the employed private wage and salary work force.

There has been some slowdown in the rates of growth since 1960. This slackening indicates that, under the existing structure and operation of private pension plans, a large proportion of the employed labor force is having difficulty in securing supplemental retirement protection. The most accessible groups are already covered, and future expansion must be in industries in which small businesses are prevalent. Current trends indicate that the vast majority of newly established plans are in this category.

The flow of persons into benefit status has been impressive. Reflecting the maturing of many plans, the number of persons receiving private pension benefits today is 20 times greater than in 1940—160,000 persons in 1940 and about 3.8 million in 1968 (table 2). The number should grow rapidly, so that it is estimated that the number of beneficiaries will be about 6.6 million in 1980.

TABLE 2.—BENEFICIARIES UNDER OASDHI AND PRIVATE RETIREMENT PLANS, DECEMBER, SELECTED YEARS, 1940–80

[In thousands]

Year	Retired workers aged 62 and over receiving old-age (primary) benefits under OASDHI [1]	Beneficiaries under private retirement plans [2]
1940	112	160
1945	518	310
1950	1,771	450
1955	4,474	980
1960	8,061	1,780
1965	11,100	2,750
1966	12,293	3,110
1967	12,748	3,420
1968	13,097	[3] 3,760
Projections: [4] 1980	18,261	6,600

[1] For 1966, 1967, and 1968, includes persons with special age 72 benefits. Excludes disabled beneficiaries under age 65.
[2] Includes an undetermined number of retired and disabled workers under age 62 and widows.
[3] Preliminary.
[4] President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Funds, "Public Policy and Private Pension Programs," January 1965, appendix A, table 3.

Source: Social Security Administration.

Private retirement plans in 1968 were estimated to be paying pensions to perhaps 2¾ to 3 million persons who were age 65 and over. These annuitants, plus their wives, are estimated to comprise about one-fifth of the entire population aged 65 and over. It is anticipated that over the next dozen years the proportion of the aged with dual protection—from both OASDHI and private pensions—may rise to 25 to 30 percent.

A2. *Selected Characteristics of Private Plans*

An overall view of the private retirement structure reveals astonishing diversity in financing and coverage arrangements, in the types of benefits provided, and in the scope and level of protection afforded. This diversity has been influenced by a wide variety of factors—the financial ability and interest of the individual firm or industry, the extent of collective bargaining, industry and labor-market forces, and the consideration given to the basic social security program—old age, survivors, disability, and health insurance (OASDHI).

A recent Bureau of Labor Statistics study of pension plans, based on a sample of reports and documents filed with the U.S. Department of Labor's Office of Labor-Management Welfare-Pension Reports pursuant to the Welfare and Pensions Plan Disclosure Act, yields some significant data on the characteristics of current private pension plans. By the end of September 1966, financial reports for over 30,000 plans had been filed. The worker coverage figures relate to 1964–65. The data exclude deferred profit-sharing plans, plans of nonprofit organizations, and plans with fewer than 26 workers.

Almost 40 percent of the plans covering 70 percent of the workers indicated that the plans were mentioned in collective bargaining agreements between management and unions.

The variations in the impact of collective bargaining and the other underlying forces in the development of private retirement plans have resulted in concentrations of coverage in certain industries and occupations. The high coverage in most manufacturing industries can be attributed, in large part, to the spread of private pension coverage to unionized workers in mass-production industries since 1950. Three out of five of all private plans with the same proportion of workers are in manufacturing industries, so that probably 75–80 percent of all employed workers in manufacturing now enjoy private pension coverage (mostly in collectively bargained plans) in addition to their basic OASDHI protection. By way of contrast, only a small proportion of employed workers in trade and services are included in these plans.

In some nonmanufacturing industries, however, such as motor and water transportation, communication, public utilities, and finance, pension coverage is almost universal. Coverage in the construction industry, while below that of these industries, is more extensive than found in trade and services. For mining and extractive industries, coverage has been extended to a high proportion of the work force, mostly through collective bargaining.

The growth and development of negotiated multiemployer plans has been responsible for heavy concentration of pension coverage in certain industries. The plans have developed, for the most part, in industries and occupations marked by seasonal employment, frequent job changing, small firms, and high rates of individual employer mortality. These plans are marked by portable pension credits, so that employees may accumulate credits by working for any employer belonging to the plan. In mining, construction, water and motor transportation, and wholesale trade, most covered workers are included in collectively bargained multiemployer plans. In manufacturing industries, heavy concentrations of coverage of these plans are found in apparel and food products.

B. The Rationale for Private Pension Plans

Numerous and varied theories have been put forward in explanation of the rapid development of private pension plans. Little purpose is served by arguing one rationale against another. Much more important than the cause is the effect of this growth in strengthening the economic security of American workers. Nevertheless, the major theories deserve consideration, especially since they may offer important clues to future private pension developments.

Melone and Allen in their book on pension planning have provided us with an excellent summary of early and more recently cited justifications for establishing private pension plans:

> Early industrial pension plans were viewed as gratuities or rewards to employees for long and loyal service to the employer. Closely related to this view is the concept that private pensions constitute a systematic and socially desirable method of releasing employees who are no longer productive members of the employer's labor force * * *. As the economy became more and more industrialized and pension plans became more prevalent, there was increasing interest in the view that em-

ployers had a moral obligation to provide for the economic security of retired workers. This point of view was expressed as early as 1912 by Lee Welling Squier, as follows: "From the standpoint of the whole system of social economy, no employer has a right to engage men in any occupation that exhausts the individual's industrial life in 10, 20, or 40 years: and then leave the remnant floating on society at large as a derelict at sea." This rationale of private pension has come to be know as the *human depreciation concept.*[8]

Alternatively, it is also said that private pension plans had their origin in the interest of the employer in retaining his valuable employees and in reducing the amount and cost of labor turnover. Related to this reason is the multifaceted theory of increased production: (1) The security given to the individual makes him a better employee, encouraging him to stay with and work harder for the company; (2) by retiring superannuated workers whose productivity has significantly decreased, the total production of the company is raised; and (3) by providing opportunities for promotion through retirement of older workers, the morale (and therefore the productivity) of younger workers is raised.

The "human depreciation" rationale tends to have many supporters because of the continual process of skill obsolescence which takes place as a byproduct of technological change—change which causes a similar obsolescence of capital equipment. The large upsurge during the past decade of research and development expenditures has, moreover, caused this rationale to take on a special significance. The validity of the human depreciation concept has been challenged, however. Some have argued that employment sometimes actually slows down the aging process instead of accelerating it. Others argue that the process of aging cannot be attributed to the employment relationship but is, instead, basically physiological.

Finally it is argued that: "Analogy between men and machines is inherently unsound. A machine is an asset owned by the employer, and depreciation is merely an accounting technique for allocating the costs of equipment to various accounting periods. Employees, on the other hand, are free agents and sell their services to employers for a specified wage rate. An employee, unlike a machine, is free to move from one employer to another."[9]

Perhaps the rationale for private group pensions which has achieved the widest acceptance is the "deferred wage concept." This concept views total wages as the sum of wages paid plus the value of various fringe benefits (paid leave, insurance benefits, pensions, etc.). "The assumption is made that labor and management negotiators think in terms of total labor costs. Therefore, if labor negotiates a pension benefit, the amount of funds available for increases in wages are reduced accordingly."[10]

Attention has already been called to the stimulating effect on private pension plan growth which resulted from the Social Security Act and

[8] Joseph J. Melone and E. T. Allen, Jr., "Pension Planning" (Homewood, Ill.: Irwin, 1966), pp. 14–15.
[9] Ibid., p. 16.
[10] Ibid., p. 17.

the Internal Revenue Code of 1942. One pension authority takes account of all the above enumerated factors but stresses the *timing* of the dramatic upturn dating from 1950:

> The most rapid extension of pension plans dates from 1950. That timing was determined to some extent by the depression of the 1930's. Consider those workers who are now * * * confronted with the problem of adequate retirement income. They are men and women who were in their forties—and presumably at the height of their earning capacity—during the depression. For a generation with that history, it is obviously idle to question whether a man should or should not be expected to provide for himself. Back in the year 1920, how could the young man of 30 have anticipated his future earnings and budgeted his standard of living with such foresight and success as to go through the years 1930–36 with enough savings left over to provide for his retirement in 1958? [11]

Each person, therefore, may make his choice among the diverse explanations of the growth of industrial pension plans and supply his own underlining for emphasis as to the rationale.

That private pension plans have grown so rapidly is in itself evidence that they are a response to a wide felt fundamental need; they can be expected to continue to grow so long as this need remains unmet.

C. Conflicts in Plan Purposes

In evaluating the role of private pensions in the economy, one should be aware of a number of conflicts of purpose which have developed as pension plan coverage has spread throughout private industry. Five basic areas of conflict among participants in the planning of private pensions are discussed below. These are:

1. Differing preferences between employers and employees regarding retirement flexibility and the age of retirement.

2. Differences between older and younger workers regarding the relative importance of past service credits, benefit levels, and vesting provisions.

3. A difference between large and small firm employees in the importance of social security benefits.

4. A conflict between employers and the general interest of the economy with regard to labor mobility.

5. Conflicts over allocation of the pay package.

The first conflict centers around the question of what should be the age of retirement and whether it should be compulsory. From the employer's standpoint there seems to be a general desire to institute a compulsory age of retirement and to keep it low and uniform for all

[11] Robert Tilove, "Pension Funds and Economic Freedom" (New York: The Fund For the Republic, 1959), p. 3.

workers. "The larger the company the greater (is) the propensity to have a policy with some element of compulsion. This is probably due to the fact that as company size increases, the relationship between management and the individual employee becomes more impersonal, middle and top management are less cognizant of the individual employee's capabilities and needs, and the possibility of changes of unfair, discriminatory or differential treatment as between employees increases." [12] Also, as indicated in a study by Brennan, Taft, and Schupack, employers behave as if the productivity of older workers is lower than younger workers—seeking to lower the average of their work force.[13] And finally, as indicated in section B, above, there is pressure from the younger worker (and sometimes from the union) to keep advancement opportunities open and to maintain morale.

In contrast with such management desires regarding the retirement age specified by pension plans, the workers' interest is in promoting flexible retirement policies. A great deal has been written about the benefits of flexible retirement policies which permit those workers to continue working who have psychological and/or income needs to continue working.[14] These need not be repeated here.

A second source of conflict in the purposes of private pension plans arises between older and younger workers. The older workers typically had little or no pension coverage during their earlier years of work. Now established in their "final job" and looking forward to their day of retirement (either apprehensively or with great expectation), they are most concerned about the adequacy of the pension they will receive. Hence older workers tend to favor emphasis upon high benefit levels and the granting of past service credits toward these benefits. "The employer also has a definite interest in granting past service credits because generally his most immediate concern, when he sets up a pension plan, is to provide pensions for long-service employees at or near retirement age." [15]

Younger workers, while surely also concerned about benefit levels, have a greater stake in the development of better vesting provisions which will allow them to build up pension credits as they move from job to job. The conflict, therefore, is summarized by the research staff of the American Enterprise Institute as follows:

> Resources available for pensions usually are limited. Therefore, decisions about the total "pension package" necessarily involve trade-offs among the alternative uses of these limited resources. Often the choice—whether made in management-labor negotiations or by management unilaterally—is to sacrifice either early vesting or normally amortized financing of unfunded liabilities, or both, in favor of past service credits or larger pensions * * * There is general agreement

[12] Fred Slavick, "Compulsory and Flexible Retirement in the American Economy," (Ithaca, N.Y.: Cornell University, 1966), p. 36.

[13] Michael J. Brennan, Philip Taft, and M. B. Schupack, "The Economics of Age" (New York: Norton, 1967).

[14] See, for example, F. Le Gros Clark, "Work, Age and Leisure" (London: Michael Joseph, 1966) and George L. Maddox, "Retirement As a Social Event in the United States," in J. C. McKinney and F. T. de Vyver, eds., "Aging and Social Policy" (New York: Appleton-Century-Crafts, 1966).

[15] American Enterprise Institute for Public Policy Research, "The Debate on Private Pensions," a condensation of AEI Analysis No. 4 (Washington, D.C.: AEI, 1968), p. 4.

> that grants of past pension credits do constitute the crux, in the main, of the problems with which the proposals on pension vesting, funding, and reinsurance seek to deal * * * If past service credits are not granted, vesting costs are materially reduced. Consequently, available pension resources can be allocated to earlier vesting of individual pension rights. Moreover, without past or prior service credits, the problem of financing initial, unfunded liabilities does not arise.[16]

A third area of conflicts occurs between employees of large and small companies. The costs of providing pension coverage in small companies with few employees is comparatively high. This results from the inability of small companies to realize the economies of scale associated with the establishment and administration of plans covering a large number of persons.

Workers in small firms which cannot or do not provide pension coverage must rely in retirement on social security benefits, supplemented by any savings they may have. But with both private and public pension systems operating which provide retirement benefits to the *same* workers in a large number of cases, it is unrealistic to assume that the pension levels of either public or private pensions are *not* influenced by the benefit levels of the other. Thus, raising benefit levels for workers covered by private pensions probably results in less political pressure and less apparent "need" for increases in social security retirement benefits. But workers *not* covered by private pensions are inevitably the losers in any slow-down in the rate of social security increases.

Further, there is the conflict between employers and the general interest of the economy with regard to labor mobility. Bernstein has summarized the value of mobility as follows:

> The opportunities and incentives of our economic system, which we prize, are dependent in large measure upon the ease of workers' mobility. Such mobility is essential to the economy's ability to adapt itself to evershifting demands. Only by changing jobs can many workers develop skills, accumulate valuable experience, increase their earnings, or escape from a declining business or industry. Innumerable personal considerations such as health and family obligations often dictate job changes. These and many other considerations are strong justifications for ease of mobility.[17]

The employer, on the other hand, often sees the pension plan as a means of reducing costly labor turnover and promoting worker loyalty. Some have even argued that if employers are prevented from using pension plans for this purpose, they will be unwilling to continue sponsoring this form of fringe benefit.

Hugh Folk has presented theoretical arguments suggesting that pensions reduce labor mobility and that employers tend to exploit workers who leave employment before attaining vested pension rights.[18] Folk also surveys the available statistics which, while not

[16] Ibid., pp. 5–6.
[17] Bernstein, op. cit., p. 14.
[18] Hugh Folk, "Private Pensions and Labor Mobility," University of Illinois Bulletin, Vol. 64, No. 76 (Feb. 9, 1968).

entirely convincing, indicate that labor mobility may have decreased considerably since World War II.

Finally, there is another conflict which, while not specifically a conflict regarding the purpose of private pensions, is so basic that it cannot be ignored. The task force in its original paper observed, "Most parents today face a common problem: How can they allocate earnings to meet current obligations to their family and still have something left over for retirement?" [19]

Consumption opportunities and perceived "needs" today must be balanced off with requirements for retirement income in the future. Employees and/or unions must choose among various alternative distributions of the pay package between current wages, future pension benefits, other reduced benefits, or reduced hours of work. The existing evidence which indicates high rates of voluntary withdrawal of their "own contributions" in pension plans upon separation from employment suggests that workers are under great pressure to consume now.[20] As McClung has suggested, "evidently, members of employer-employee contributory plans who withdraw upon separation or would withdraw if separated do not value employer contributions at anywhere near their objective worth." [21]

The implication of this evidence is important; to the extent that the employee underestimates his "needs" in retirement, he will lend support to the various factors operating in the economic system which result in relatively low incomes in retirement [22] and help perpetuate the aged poverty problem into the future.[23] One such factor is, of course, the extent to which employees support wage package options in perference to higher private pension benefit levels, vesting levels, beneficiary provisions, et cetera.

These five conflicts, and others, have contributed to the difficulties of developing a public attitude or policy regarding private plans and no doubt account for a large amount of current criticism levied against private plans by the participants themselves.

D. Some Myths Concerning Private Pensions

There are a number of generalizations made about private pensions which currently enjoy widespread acceptance but which, at best, are true only if highly qualified. This section will discuss a number of these misconceptions as an additional way of clarifying the role of private pensions in the economy. It is inevitable that this type of analysis, to some extent, takes the form of setting up the proverbial "strawmen." Although the more sophisticated forms of these oft-voiced generalizations may include the qualifications mentioned or

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[19] U.S. Special Committee on Aging, op cit., p. VIII.

[20] The origin of this pressure may be self-generated (i.e., personal preference) and/or it may be influenced to a large extent by societal pressures to buy through group norms or advertising (in the manner suggested by Vance Packard and John K. Galbraith).

[21] U.S. Joint Economic Committee, "Old Age Income Assurance: An Outline of Issues and Alternatives," 89th Cong. second sess. Washington, D.C. Government Printing Office, 1966), p. 21.

[22] See the task force report for an elaboration of these factors, U.S. Special Committee on Aging, op. cit., especially pt. 3.

[23] The situation being suggested is one where workers decide not (refuse) to provide adequately for retirement and then bemoan their economic situation when old and demand higher incomes as a matter of "right."

take account of the considerations enumerated below, it does not hurt to emphasize them—especially given the many times the generalizations appear in writing and discussions without qualification.

Myth 1: Private pensions are a product of the free choice of workers in negotiation with management and are more compatible with the ideals of freedom than compulsory public pensions.

If we look at the reality of private pension plan initiation and operation we see that freedom of choice nearly always plays a very minor role. For the vast majority of workers who are now or will be covered by private plans there was not, is not now, and will not be, any choice. Almost all private pension schemes are compulsory. Regarding the details of the plan, workers must register their individual preferences through union representatives (if they are unionized) or be content with the pension benefits which management "gives" them.

Concerning union negotiated plans, two points should be made. First, surveys of the provisions of various plans show that existing private pension plans contain few, if any, options. Workers usually cannot choose, for example, between pensions protected against inflation versus nonprotected pensions, optional employee contributions versus only employer contributions, and earlier versus later vesting.[24] Nor—to the best of our knowledge—do workers have any control whatsoever over how the pension funds are to be invested.

Second, there is much evidence to indicate that decisionmaking power in unions usually becomes concentrated in the hands of a minority—just as in other groups. Thus, Bernstein, after interviews with union staff people, observes the following:

> Many experts in this field believe that older workers care about pension plans, while younger workers are unconcerned or are interested in more immediate benefits. While this may well be so, there is insufficient solid data to support such an assumption. In some unions the effective membership—those who will most likely stay in the industry and the union—is concentrated among the older members. And these are the men whom the officers must please over the long haul. They are also the members most interested in pensions and least troubled by stringent age and service eligibility requirements. Hence they prefer their representatives to concentrate on high benefits, which encourage limitations upon the number who will qualify.[25]

Thus, decisions are made by the union with regard to bargaining priorities, and pension plan provisions are evolved. While this sort of decisionmaking process is by no means illegitimate—and is also common to all types of groups other than unions—the point should be made that the process is certainly not one which emphasizes freedom of decision; further, the distinction between representative union decisionmaking and representative congressional decisionmaking does not seem to be great.

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[24] See, for example, U.S. Bureau of Labor Statistics, "Digest of 100 Selected Pension Plans Under Collective Bargaining, Spring 1968," BLS Bulletin 1597 (Washington, D.C.: Government Printing Office, 1969).

[25] Bernstein, op. cit., p. 13.

Myth 2: While social security must ever remain a monolithic uniformity, private pension plans are flexible and can be tailor-made to meet differing situations and conditions.[26]

While it is certainly true that private pension plans encompass a smaller number and fewer types of workers than social security, one should not overlook the heterogeneity of workers included in a great many private pensions. Workers from widely different occupations or from different size firms are often included under the same pension plan. Or, as in the case of the Teamsters Union, workers from entirely different industries are covered by a common private pension plan. Such diversity of coverage makes it difficult to design a pension plan which will serve the specific needs of all the workers covered. Furthermore, as will be discussed in detail in section IV below, the flexibility provided by private pension plans is possible only at the cost of diminished security to many of the workers covered by the plans.

While it is true that private pension plans permit adaptation to the special circumstances of particular groups of employees, one would find it difficult to justify the wide disparity in private pension provisions currently existing for this reason. Rather, it seems clear that much of the disparity exists today as a result, not of the special circumstances of employees, but because of the conflicts between employers and employees over the purposes of private pensions (see section II–C above).

Thus, a private pension plan which provides for early retirement with adequate income in an occupation where physical deterioration on the job occurs at an early age is an example of such flexibility. But a plan which has high service and age requirements for vesting as a result of a desire to provide past service credits to the more senior employees is no doubt responding to the power position of the older employees (in the company or union) at the expense of the younger employees.

Myth 3: Private pension plans are vital to assure the saving necessary to provide sufficient investment in a growing economy.

Table 3 shows the magnitude of business saving relative to nonresidential, fixed investment during the last decade. The figures indicate a fundamental fact: in the key growth sector of *corporate* production, the overwhelming majority of funds needed to finance new investment comes from the *internal* funds of these corporations. As Galbraith has observed, "The decisions on what will be saved are made in the main by a few hundred large corporations." [27]

There is no evidence to indicate that there has been an insufficient amount of saving in our economy relative to investment propensities. Instead we have had to periodically worry about an excess of total

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[26] Except for slight modification, this statement is identical to a statement which appears in Robert C. Tyson, "Let's Keep Our Dual Retirement System," *Harvard Business Review*, vol. 46 March-April, 1968), p. 6.

[27] John Kenneth Galbraith, "The New Industrial State" (New York: New American Library, 1967), p. 53.

private saving over private investment—causing lower Government saving (i.e., bigger deficits) through automatic and/or discretionary fiscal policy.

TABLE 3.—BUSINESS SAVING AND INVESTMENT, 1958-68

[Billions of dollars]

	Gross business saving [1]	Total nonresidential fixed investment
Year:		
1958	49.4	41.6
1959	56.8	45.1
1960	56.8	48.4
1961	58.7	47.0
1962	66.3	51.7
1963	68.8	54.3
1964	76.2	61.1
1965	84.7	71.3
1966	91.6	81.3
1967	93.1	83.6
1968	97.5	90.0

[1] Undistributed corporate profits, corporate inventory valuation adjustment, capital consumption allowances, and wage accruals less disbursements.

Source: U.S. Council of Economic Advisers, The Annual Report (Washington, D.C., Government Printing Office, 1969), tables B-11 and B-18.

A comprehensive study of the economic aspects of pensions by the National Bureau of Economic Research has concluded:

> Our research has supported the proposition that pension saving is a net addition to personal saving. Less clearly established, perhaps, is the extension of this conclusion to state that it is a net addition to total national saving. The impact on saving by business and Government is not clear, but it seems doubtful that it is materially affected.
>
> There is also some evidence that this major impact has already been felt. If it is desirable to sustain the growth of saving in the economy, some other economic policies may be more fruitful in the future * * * [28]

Myth 4: The current large number of workers covered by private pensions and the high incidence of some kind of vesting protection will cause a significant improvement in private pension benefits for future retirees.

Certainly there will be more workers receiving private pensions in the future, and the pension benefits received will undoubtedly be higher. The key question, however, is how significant will the improvement be and how long will it take? The fact that over 28-million workers are covered by private pension plans or deferred profitsharing plans and that roughly two-thirds of these workers are covered by plans with some form of vesting, tells us little about ultimate benefits. Even the more liberal of current industry plans require 10 years of service for any vesting benefits. Most plans also require that a minimum age requirement be met, and many require more than 10

[28] Roger F. Murray, "Economic Aspects of Pensions—A Summary Report," National Bureau of Economic Research (New York, Columbia University Press, 1968), p. 66.

years of service (most commonly 15 years).[29] Relatively slow improvement seems to have occurred (see section III–D) since Bernstein concluded: "The indications are that, despite the fact that vesting provisions are common in plans, only the very long-term employees are protected by vesting as presently practiced. The millions of others who change jobs * * * are not."[30]

Regarding the level of future private pension benefits, table 4 shows the results of a simulation projection of private pension income for the retired population in 1980. Two alternative income distributions for couples and unmarried individuals are shown. The first projection is based upon the benefit levels as specified in private pension plan formulas in the year 1964. The second projection assumes that private pension benefit levels *increase 3 percent each and every year after 1964.*[31]

The projections show that present levels of private pension benefits will be of little help to the next generation of retirees. Sixty percent of private pension recipients are projected to receive less than $1,000 a year in private pension benefits. Even if a significant upward trend in benefit levels is assumed, about three-quarters of the private pension recipients in 1980 will be getting less than $2,000.

TABLE 4.—PROJECTED PRIVATE PENSION INCOME DISTRIBUTION FOR RETIRED COUPLES AND UNMARRIED INDIVIDUALS, 1980

[Percentage distribution]

Private pension income	Couples [1]		Unmarried individuals [1]	
	1964 level	3 percent trend	1964 level	3 percent trend
Total percent	100	100	100	100
Under $1,000	60	35	72	49
$1,000 to $1,999	33	39	23	34
$2,000 to $2,999	6	17	4	11
$3,000 to $3,999	1	6	1	3
$4,000 to $4,999	(2)	2	(2)	1
$5,000 and over	(2)	(2)	(2)	(2)

[1] Recipients only. Trend refers to annual increase in level of benefits. Same recipient rate assumed for each run.
[2] Less than 0.5 percent.

Source: Adapted from James H. Schulz, "The Economic Status of the Retired Aged in 1980: Simulation Projections," Social Security Administration, Research report No. 24 (Washington, D.C., Government Printing Office, 1968), table 20, p. 69.

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[29] Donald Landay and Harry E. Davis, "Growth and Vesting Changes in Private Pension Plans." *Monthly Labor Review,* Vol. 91 (May 1968), pp. 20–35.
[30] Bernstein, op. cit., p. 248.
[31] For details of the projection analysis see James H. Schulz, "The Economic Status of the Retired Aged in 1980: Simulation Projections," Social Security Administration, Research Report No. 24 (Washington, D.C.: Government Printing Office, 1968).

III. SOME KEY ISSUES

The various specific issues which have been discussed in the debates and literature on private pensions are numerous. Not all these issues are discussed in this paper; instead, the remainder of the paper focuses on a number of issues which are particularly important with regard to their impact on the retirement income situation of present and future older people. The macroeconomic impact of private pensions on the economy, issues regarding tax treatment of private pension, reinsurance schemes, levels of plan funding, the question of who should control plan funds, and so forth—while important questions—are not discussed.

A. Private Pension Coverage—Potentials for Expansion

Over the years Congress has enacted several pieces of major legislation that have contributed to the growth of private retirement plans. These include:

(1) Tax exemption for employer payments to trust funds, and the earnings thereof, created as part of a retirement plan for employees. (Enacted 1921 for profit-sharing plans; 1926 for pensions.)

(2) Tax-sheltered annuities for employees of non-profit organizations. (Enacted 1939.)

(3) Authority to establish joint labor/management pension trusts. (Enacted 1947.)

(4) Extension of tax exemption to retirement funds for self-employed persons. (Enacted 1962.)

Coverage under private retirement plans is continuing to expand with about a million workers added to plan rolls each year. However, the work force is growing by approximately the same number of persons so that little if any progress is being made in reducing the number of persons without pension coverage. Any attempt at appraising the potential for expanding private coverage must take into account the characteristics of the principal groups not covered. Exhibit A, which has been prepared by Pearl Charlet, identifies these groups, their numbers, and their current prospects for coverage; it also summarizes the progress now being made in transferring them to covered status.

Exhibit A

End of 1967.—Workers currently without pension coverage—Who are they? How many are there? What are the prospects for their coverage? And what progress is being made?

Who are they?	How many?	What are the prospects for coverage?
Unemployed	2, 975, 000	As a class, this group will probably never qualify for pension coverage since even the nearly universal coverage of social security does not provide coverage for periods of unemployment. The fundamental problem is to transfer workers from this category to a gainfully employed group. Since 1963 nearly 1.2 million persons have moved from the unemployed to the working group.
Unpaid family workers	1, 054, 000	This group—also largely without social security coverage—is a marginal part of the labor force at best. With the possible exception of individual tax incentives which might apply to forms of income other than "earnings from work," it appears unlikely that this group will ever be eligible for pension coverage, certainly under existing conditions their prospects are virtually nonexistent. The number of unpaid family workers has diminished by about 367,000 since 1963, and presumably some have become affiliated with groups having pension potential.
Government workers	1, 987, 000	Many of this group are employed by small local governments where coverage is generally available by voluntary participation in an already established State-operated system. Also included in this group are a few persons who for various reasons do not qualify for participation in the programs of the government agency for which they work. The coverage prospects for the group as a whole are reasonably good.

		Since 1963 the total number of workers on government payrolls has increased about 2.1 million, while pension coverage for this group went up nearly 2.4 million. Pension coverage for the category increased from 74.8 to 82.2 percent during the 4-year period.
Self-employed	7,086,000	This group is composed of 1,996,000 self-employed persons in agriculture and 5,090,000 self-employed in nonagricultural industries. The self-employed have been "potentially eligible" for pension coverage since the enactment of special legislation in 1962. Although 56,000 plans were approved by the end of 1967 only about 84,000 persons are covered which includes an undetermined number of "employees" of the self-employed. A major deterrent to the growth of self-employed coverage during the early years of eligibility was the fact that their tax incentive was considerably less than that enjoyed by employees of corporations. Legislation to eliminate this discrimination was enacted in 1966 for taxable years beginning after 1967. As a result, the number of persons coming under self-employed pension coverage in 1968 alone was nearly double the number added in the prior five years (163,000 in 1968 compared with 84,000 in the years 1963–67). The number of self-employed persons in the labor force has decreased about 1,500,000 since 1963. It can be safely assumed that some of these persons have become wage and salary workers and have acquired pension coverage. The evident growing popularity of H.R. 10 plans, coupled with the general movement of self-employed persons to paid employment, considerably enhances the prospects for eventual pension coverage of this category of the labor force.

EXHIBIT A—Continued

Who are they?	How many?	What are the prospects for coverage?
Agricultural workers	1,303,000	A sizable portion of this group is employed by the 2,000,000 self-employed farm operators who are now eligible for pension coverage. As such they could be covered by plans established by their employers in the same manner as agricultural workers who are employees of corporations. However, from a realistic viewpoint, the agricultural worker group will probably never attain a high level of pension coverage because of the itinerant nature of many farmworkers. This is also a diminishing segment of the labor force, showing a decrease of about 372,000 workers since 1963.
Wage and salary workers in private nonagricultural industries.	26,187,000	This group accounts for the balance of all workers presently without pension coverage. Although pension coverage in this group is increasing at the rate of about 1.0 million persons each year, the total number of wage and salary workers is rising even more rapidly as the result of new entrants into the labor force and diversion from other segments of the labor force. So in effect while the number of covered persons is increasing, we are actually losing ground as far as reducing the number not covered. From 1963 to 1967 this segment of the work force increased 5.7 million persons while pension coverage grew slightly more than 3.6 million. In 1963, 49.9 percent of all wage and salary workers were covered by pensions; in 1967 the portion with coverage was 51.2 percent. The available data on pension coverage does not indicate whether the approximate million persons being added each year results from the establishment of new plans or from additional employees covered under existing plans.

It is generally agreed that small employer groups are at a serious disadvantage in establishing retirement plans, from the standpoint of cost of establishment and cost of administration. As a result, it is assumed that the number of persons without pension coverage includes a high proportion of workers employed in small employee groups. The latest figures available indicate that in 1967 over 26,000,000 persons (49 percent of the 53,000,000 wage and salary workers other than agricultural and domestic workers) worked for firms with fewer than 100 employees; over 20,000,000 (39 percent) worked for firms with fewer than 50 workers; and over 13,000,000 (25 percent) were in establishments with fewer than 20 employees.

A significant development affecting small corporate employers occurred late in 1968 when the Treasury Department announced streamlined procedures for expediting the establishment of corporate retirement plans by utilizing master and prototype plans comparable in concept to those developed for H.R. 10 plans covering self-employed individuals and their employees.

Although this streamlining of qualification procedures represents a step forward in facilitating pension coverage for many workers, it must be recognized that a substantial portion of this segment of the labor force still may never attain coverage under existing legislation. In a free economy, there will always be businesses that will not voluntarily provide retirement income or that cannot afford to do so. There will always be transient and marginal workers who willingly work for such employers and who prefer current to deferred income. There will always be many part-time and temporary employees.

NOTE.—At the end of 1967 a total of 40,592,000 workers were without pension coverage, compared with 42,228,000 at the end of 1963. The portion of the labor force without pension coverage was reduced from 57.9 percent at the end of 1963 to 52.5 percent at the end of 1967.

Source: U.S. Treasury Department, U.S. Department of Labor, U.S. Department of HEW, and Institute of Life Insurance.

It is evident from exhibit A that the pension potential of workers currently without coverage can be further classified as follows:

Poor (5,322,000 workers)	Unemployed and unpaid family workers. As long as pension coverage is confined to the employment relationship, these groups are automatically excluded.
	Agricultural workers. This is perhaps the least likely of all working groups to attain pension coverage.
Fair (26,187,000 workers)	Wage and salary workers in private non-agricultural industries. Prospects for coverage actually range from "poor" to "excellent," but as a group it is only "fair" for reasons to be explored in later comments.
Good (1,987,000 workers)	Government workers. The mechanism for coverage is generally in operation, and it is only a matter of time before the group attains optimum coverage.
Excellent (7,086,000 workers)	Self-employed workers. Coverage for most of this group is a matter of self-determination.

The segment of the work force where efforts to expand pension coverage appears most urgent is the private industry wage and salary worker group. Not only does this group represent nearly two-thirds of all persons currently without coverage, it also is the category most likely to serve as the conduit through which the unemployed can ultimately be brought under private plans. Therefore, it is appropriate to concentrate attention on this group and to analyze its pension potential.

As indicated in exhibit A, it is generally assumed that a high percentage of wage and salary workers without pension coverage work for small employers. This assumption is confirmed by data reflecting employer tax deductions for retirement plans. Table 5 expresses these deductions as a percentage of total business receipts in 1965 for each of the forms of business enterprise. It further shows the effect of asset size on corporate retirement plan deductions.

TABLE 5.—*Employer deductions for retirement plans by type of employer*

Type of business	*Percent of 1965 business receipts*
Proprietorships [1]	0.008
Partnerships [1]	.070
Small business corporations [2]	.198
All other corporations, by asset size	.649
Under $100,000	.152
$100,000 but under $250,000	.181
$250,000 but under $1,000,000	.246
$1,000,000 but under $5,000,000	.383
$5,000,000 and more	.941

[1] Excluding deductions on behalf of owner-employees.
[2] Those firms legally incorporated with 10 or fewer shareholders who elect to be taxed through the shareholders rather than as corporations.

Source: U.S. Treasury Department, Statistics of Income, 1965 Business Income Tax Returns.

The lack of pension coverage is obviously concentrated among small employee groups. Employers include proprietors, partnerships, and small incorporated businesses. A profile of these small employers would include the business proprietors found on any typical small town

Main Street or any large city neighborhood shopping center: The small retailer, the local restaurant, the service station, repair services, the barber and beauty shop, the doctor and dentist, the auto dealer—and many, many more small employers of wage and salaried workers. The profile would likewise include partnership operations such as law firms, consulting engineers, accounting firms, and real estate firms—together with small manufacturing plants operated as corporations or by self-employed owners.

A number of reasons can be cited to explain why pension plans have not been widely adopted by small employers.

1. Exclusion of self-employed persons from coverage prior to 1963

Although proprietors and partners could set up pension plans for their employees prior to the enactment of the Self-Employed Retirement Act, very few did. The typical exception was the proprietary or partnership business employing substantial numbers of high-skill persons in competition with corporate industry. Such businesses are usually engaged in rendering services of a nature which is prohibited from incorporation under many State laws.

In general, self-employed persons had little motivation to establish plans for employees when they could not personally participate. Even when participation became available in 1963, the motivation was commensurate only to the limited tax incentive granted to owner-employers. The subsequent change in the law to permit "full" tax incentives after 1967 resulted in a demonstration in 1968 that tax incentives are a powerful motivation in extending private coverage (163,000 persons added to self-employed pension coverage in 1968 alone, compared with a total of 84,000 in the prior 5 years).

Recognizing that noncorporate employers are now at the stage of tax incentive motivation that corporate employers attained some 40 years ago, is it likely that the elimination of this major deterrent to pension coverage for wage and salaried workers employed in noncorporate business will bring about their eventual inclusion in private plans?

For an answer to this question, we must look both to the limited experience of self-employed pensions and to the remaining reasons cited for the reluctance of small employers, both corporate and noncorporate, to establish retirement plans.

The limited experience of self-employed participation in retirement plans leads to the conclusion that during the initial period of their existence H.R. 10 plans have been most popular among self-employed persons who have no full-time employees meeting the requirements for mandatory coverage (3 or more years of service). Information based on 1965 business income tax returns indicates that only 18 percent of all retirement plans covering self-employed proprietors also included employees in the plan (30,781 plans covering proprietors with employees participating in only 5,457 of these plans). This proportion reflects the first 3 years of coverage experience under the Self-Employed Retirement Act. In addition, 13,042 proprietors maintained retirement plans for employees, in which the owners did not participate. Such plans could have been established either before or after the Self-Employed Retirement Act became effective, but it is logical to assume that a large percentage of them predated the act. (It is unlikely that so many employers would have excluded themselves from coverage if the plans had been established after the effective date of the act.)

It is apparent, even from the limited experience available, that the Self-Employed Retirement Act offers an attractive incentive for private pension coverage to the self-employed person who has no employees that must also be covered. But the extension of coverage to employees of noncorporate business is still subject to the same set of reasons that exist for the comparatively low level of pension coverage in small corporations.

2. High cost per employee of establishing and maintaining a plan

The cost of designing and implementing a retirement plan and trust fund is virtually unaffected by the number of persons covered. The same steps and procedures are required for 10 or for 10,000 employees, and the charges for advisory, actuarial, and legal services will not vary to any proportionate extent. While some of the costs of establishing a trust funded plan can be avoided by adopting an insured pension, the small employer is at a disadvantage because of limitations on the choice of contract and provisions available to him; he is also at a disadvantage in the matter of premium rates since the economics of mass coverage are not available to him. The cost of administering a plan, either insured or trusted, will reflect the size of the employee group to a large extent, but the per capita cost for a small group will invariably be higher.

Thus to the extent that employer dollars available to devote to retirement income are eroded by excessive cost of establishing and administering a plan, the value of tax incentives is diminished for the small employee group.

A pioneering step to simplify the establishment and administration, and consequently the cost, of small plans was made at the time the Self-Employed Retirement Act was passed. By utilizing master and prototype plans, individual self-employed persons can adopt a retirement program for themselves and eligible employees at a fraction of the adoption cost of the typical hand-tailored corporate plan.

Late in 1968 the Treasury Department extended the use of master and prototype plans to corporations. Funding agencies (such as banks, insurance companies, and regulated investment companies) and trade and professional associations may now develop and sponsor master and prototype plans which corporations can adopt. Master plans prescribe the funding vehicle to be used, while prototype plans would permit the adopting employer to make his own funding election. Such plans can be either a standardized or a variable form, which permits a specified range of employer choice in such areas as coverage, contributions, benefits, and vesting. After a master or prototype plan is approved by the Internal Revenue Service as meeting the requirements for tax exemption, individual corporate employers can adopt the plan and obtain a determination of tax qualification by submitting a special four-page form application.

When the machinery of master and prototype plans becomes fully operative and available, the high cost of establishing and maintaining a retirement program should become a less significant factor in the extension of coverage to small employer groups.

3. Lack of pressure from employees or unions

Labor unions have tended to focus their organizing activities on larger employers. With the exception of certain trades where union membership is a long-established tradition (such as printing, building, and trucking), small employers are generally exempt from the pressure of collective bargaining agents to establish pension plans. And where employees are members of trade unions, the pressure usually is for contribution of a set amount to a joint labor/management pension fund, with little or no employer involvement in the operation of the program once the payment is made. Nor does trade union pressure for pensions extend beyond its own members in an employer's business operation.

Employees who are not represented by collective-bargaining agents—whether they work for small or large companies—generally are not vocal in requesting retirement coverage. The preference of many workers—especially those under age 45 or 50—is to take the cash and let the pension go.

4. High turnover in small business

This is a frequently cited reason, which cannot be proved statistically since turnover is investigated and recorded only among manufacturing companies without regard to size of the employing unit. But reflection for a moment on the characteristics of the small business establishments that the ordinary citizen patronizes at frequent intervals will yield the impression of a work force that supports this reason.

Certainly the small neighborhood business tends to attract casual workers who are not seeking long-term career employment. For example, housewives, students, and retired persons prefer work near their homes. Small business offers employment to certain types of workers who are habitual job changers: waitresses, beauticians, service station attendants, to name a few. Seasonal and part-time workers also gravitate toward small employers.

5. Many small business firms are young in years

Until a business has been operating long enough to have employees with substantial service records, the question of pensions is not very urgent particularly if no strong outside pressures exist. The priority for funds in a young business is more apt to be for business expansion than for pensions.

6. Small employers view pensions as personal costs

The small employer—incorporated or not—who owns his own business tends to view retirement plan contributions as a personal cost. Unlike the widely held corporation, he cannot spread the cost among numerous shareholders. Nor does the business owner look at his own pension "benefit" as a form of additional compensation in the same way the corporate manager sees it. To the owner it represents a tax-deferred form of savings which gives him the same tax advantage enjoyed by professional managers and by all employees.

7. The small employer personality

The small business owner is frequently an independent personality with strong work drives and a dedication to the belief that each individual is responsible for his own financial future. In a family enterprise, he may be highly motivated to conserve business profits for his heirs rather than diverting them to employee security.

Significant advances have been made in recent years in removing barriers to the extension of private pension coverage. Still it is evident that even if every employer in the United States adopts a plan to provide employee retirement income, there will still be gaps in coverage and inadequacies in ultimate benefits available in the retirement years. These gaps and inadequacies are not limited to those areas currently without coverage. They apply equally to segments of the population who are now participants in pension plans. Gaps in coverage can always be expected as long as workers move from employer to employer and private plans exclude participation during initial periods of employment.

B. Private Pension Benefit Levels

If one were forced to select one body of information which is important, above all others, in evaluating the impact or role which private pensions will play in providing income security in retirement, it would no doubt be information on private pension benefit levels. Even 100 percent immediate vesting would be meaningless without benefit levels which are, in some sense, adequate. Hence, it is an astounding fact to report that today we do not know what the level of private pension benefits is and how they are changing over time. Although the Welfare and Pension Plans Disclosure Act requires that the provisions of all pension plans covering more than 25 workers

be filed with the U.S. Department of Labor, *this great wealth of information remains relatively unanalyzed.*

In 1965, a study of private pension plans benefits appeared,[32] but because of extremely unrealistic assumptions, the findings are of little usefulness.[33] More recently, a study was made of 100 negotiated pension plans and trends were examined between two periods—1961–64 and 1964–68.[34] Once again it would be pure folly to generalize about what are the trends in private pension benefits from this unrepresentative sample of plans—which in many cases are plans of the pension "leaders."

The two studies mentioned above and studies of individual firms do give us a very rough feeling for the improvements that are taking place. In general, eligibility requirements for pensions usually depend upon the completion of substantial periods of service (usually 10 or 15 years) and attainment of retirement age (normally 65) with the same company. A large proportion of plans have vesting provisions so that a long-service employee who terminates his employment with a firm before eligibility for regular retirement will retain the pension credits accrued from that employer's contributions. The high frequency of job turnover, however, tends to limit the number of persons who actually qualify for a private pension in old age. Projections from data collected in the 1963 Survey of the Aged show that only about 20 percent of the aged are receiving private pension income. These persons are the economically elite among retired OASDHI beneficiaries, and have median incomes of about $1,000 more than those without private pensions.

The benefit formulas in private plans are extremely varied, presumably reflecting the needs, financial ability, and desires of a particular employer or industry, as well as collective bargaining pressures. Most private plans are based on the premise that retirement benefits should be a function of years of service, either with a particular firm or in the case of multiemployer plans, with a group of firms. *Gearing benefits solely to length of employment has the effect of providing fairly large pensions for the career worker but small benefits for the individual with a less permanent attachment to the particular employer.* Many conventional plans relate benefits to earnings as well as to service so that benefits tend to be proportionate to earnings. If greater credit is given for earnings above the OASDHI wage base than for earnings below this amount, the effect is to provide relatively large pensions for regularly employed, middle management employees and executives with above-average earnings. Under collectively bargained plans, the tendency is to provide uniform benefits that vary by length of service but not earnings, thus placing low-paid workers in an advantageous position. Minimum benefit provisions in plans with earnings-related

[32] Donald J. Staats. "Normal Benefits Under Private Pension Plans," *Monthly Labor Review*, Vol. 88 (July 1965), pp. 857–63.

[33] For a discussion of the severe limitations of these estimates, see my "Aged Retirement Income Adequacy—Simulation Projections of Pension-Earnings Ratios," in U.S. Joint Economic Committee. *Old Age Income Assurance, op. cit.*, Part III.

[34] Harry E. Davis. "Negotiated Retirement Plans—a Decade of Benefit Impovements," *Monthly Labor Review* (May 1969), pp. 11–15.

formulas also tend to favor the below-average wage earner. Under plans contributed to by employees, benefits tend to be greater than those provided in plans financed in full by the employer.

About three-fourths of workers in private plans are in plans financed in full by the employer; that is, noncontributory plans. The remaining covered workers are in plans which require that a portion of the costs be borne by employees (contributory plans). The employee's portion in these plans is usually a fixed amount or percent of compensation, while the employer pays the balance of cost, usually about two-thirds. A few union-operated plans are financed in full by workers' contributions. Almost all collectively bargained multiemployer plans are noncontributory and are financed by specified employer contributions to a central fund. Similarly, collectively bargained single-employer plans, particularly those in highly organized mass production industries, usually are financed in full by the employer. The net result of these arrangements is that the employer makes about 85 percent of the contributions to all retirement plans.

Heidbreder, Kolodrubetz, and Skolnik have made the following general observations concerning developments affecting benefit levels:

1. There is a growing tendency to base retirement benefits on compensation in terminal years of employment, especially in plans including white collar and professional groups.

2. The history of bargaining experience of the past 15 years and the favorable experience in private pension financing have clearly shown that pension plans have not been static programs.

3. Flat dollar amounts in formulas using length of service as a variable have shown a persistent increase over time.

4. The use of step-rate formulas, providing greater benefits for higher paid persons, has increased, and the percentage factors used in computing benefits have increased.[35]

Having said this, however, we are still left with the question: how much private pension income will future private pension recipients receive when they retire? The question remains largely unanswered.

C. Survivor's Benefits

The task force report, "Economics of Aging: Toward a Full Share in Abundance," emphasized that widows and other aged women living alone are currently a particularly economically disadvantaged group. "Six out of every 10 of them have incomes below the poverty line. In fact, the number of poor women living alone has actually increased over the years—from 1.8 million in 1959 to 2.1 million in 1966—a reflection of the increasing number who live independently even at the price of poverty." [36]

Given the existence of a poverty problem among older women, it is surprising that so little attention has been paid to the adequacy of survivors' benefits existing in present public and private pension plans. In the case of private pensions, for example, neither Nelson McClung's survey article, "Old Age Income Assurance: An Outline

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[35] Elizabeth M. Heidbreder, W. W. Kolodrubetz, and Alfred Skolnik, "Old Age Programs," in U.S. Joint Economic Committee, *Old Age Income Assurance, op. cit.*, pt. II, pp. 52–94.

[36] U.S. Senate Special Committee on Aging, *op. cit.*, p. 14.

of Issues and Alternatives," [37] nor the report of the President's Committee on Corporate Pension Funds [38] mentions this problem.

This inattention is in stark contrast to evidence indicating the key role that could be played by public and private survivor benefits. For example, in a pioneering study, "Survivor Benefits" (Detroit: Michigan Health & Social Security Research Institute, 1968), Eugene Loren and Thomas Barker recently surveyed UAW union members and their survivors and found that total resources available to survivors were inadequate for long-term needs. *More importantly, they found that without group survivors benefits vast numbers of survivors would be virtually destitute.* About 75 percent of the surveyed UAW families had financial resources at the worker's death of less than $3,000; approximately half of the dependent surviving units had little or no net assets to supplement survivor benefits or work income.

Detailed data on the operation of group plans other than for UAW employees are sparse; the general information that does exist clearly suggests that private pension plans are contributing very little to the income maintenance of persons who survive after a worker's death. In some private plans the worker himself must directly bear the entire burden of protecting his spouse; he must elect a reduction in his retirement pension to cover the actuarial cost of a survivor's benefit for his spouse. Apparently few workers, for various reasons, exercise this option. Other plans *automatically* continue benefits to survivors after the death of, in some cases, the *active* worker, or, in other cases, the *retired* worker.

A Bureau of Labor Statistics study of plans in effect during the winter, 1962–63, which had the automatic survivors feature found the following:

> Death benefit provisions * * * were found in a third of the pension plans covering slightly more than a third of the workers * * * while about equal proportions of single-employer and multiemployer plans had them, a somewhat higher percentage of workers in multiemployer plans had this added protection * * *.
>
> The industry patterns of death benefit provisions showed wide differences. Plans in manufacturing industries had the lowest prevalence of death benefits; less than 30 percent of the plans and workers * * *. In contrast, in communications and public utilities, a third of the plans with over two-thirds of the workers had them, chiefly because they were provided by all of the telephone company plans. Because several large Teamster plans had death benefits, almost 30 percent of the plans with over half the workers in the transportation industry had this protection. In finance, over half the plans with a slightly lower proportion of workers had a death benefit. In the mining industry, because the Mine Workers' plan provides death benefits from another part of the welfare and retirement fund, only a limited number of workers were in plans

[37] U.S. Joint Economic Committee, Subcommittee on Fiscal Policy (Washington, D.C.: Government Printing Office. 1966).

[38] *Public Policy and Private Pension Programs*, A Report to the President on Private Employee Retirement Plans (Washington, D.C.: Government Printing Office, 1965).

with survivor protection. While only 30 to 40 percent of the workers in construction, trade, and service industry plans were in plans with death benefits, the proportion was greater than in plans in manufacturing industries.[39]

In the Bureau of Labor Statistics *Digest of 100 Selected Pension Plans Under Collective Bargaining, Spring 1968*,[40] we find more up-to-date information on a smaller group of plans which "were selected because they illustrated different approaches to pension planning, or because of widespread interest in the plan, as manifested in inquiries received by the Bureau." Of the 100 plans surveyed, 44 percent made provision for a death benefit before retirement and 43 percent after retirement.

Thus we find even in this "unrepresentative" group of plans, a sample which overrepresents the bigger firms with the "better" pension programs, that only 44 out of 100 plans have automatic death benefits. More important, however, is the information summarized in table 6 which shows the nature of the death benefit after retirement; survivor benefits paid when death occurs *before* retirement are *not* tabulated but are often similar.

TABLE 6.—*Summary of death benefits after retirement*

Type benefit	*Number of firms*
A fixed period of payments: [1]	
5 years of monthly payments	8
3 to 4 years of monthly payments	5
½ to 1 year of monthly payments	3
Worker's contributions plus interest	11
Lump-sum payment:	
$3,500 to $7,500	2
$1,000 to $3,500	5
$400 to $500	2
A percentage of normal benefits: [2]	
100	2
90	1
55	1
50	2
Other	2

[1] Usually less payments received.
[2] Many of these benefits are reduced for previous benefits paid.

Source: Tabulated from information in U.S. Bureau of Labor Statistics, *Digest of 100 Selected Pension Plans Under Collective Bargaining, Spring, 1968,* Bulletin No. 1597 (Washington, D.C.: Government Printing Office, February 1969).

The most common kind of death benefit is to pay a monthly payment to the survivor but only for a half to 5-year period. *After that, benefits cease entirely—ignoring the fact that the survivors' living expenses continue and no doubt increase over time.*

Another common survivor's benefit is one which appears in plans where the employee has made previous contributions to the pension fund; usually this contribution is about 2 to 3 percent of his salary. The survivor benefit merely returns the employee's contribution to his survivor, together with the interest accured on it.

[39] *Private Pension Plan Benefits,* Bulletin No. 1485 (Washington, D.C.: Government Printing Office, 1966), pp. 93–94.
[40] Bulletin No. 1597 (Washington, D.C.: Government Printing Office, February 1969).

The third most common type of survivor's benefit is a lump-sum payment. Here the most frequently paid amount by firms using this device is $1,000 to $3,500.

The least common type of death benefit is one which gives the survivor a benefit which is some percentage of the normal retirement benefit of the retiree. Table 5 shows that three plans pay benefits which are 90 or 100 percent of the normal benefit. Even these generous death benefits, however, are usually reduced as a result of any previous benefits paid to the retiree before his death.

In addition to survivor's benefits, many firms also provide life insurance benefits to their employees. The value of this insurance at death varies widely, but based upon a selected group of plans surveyed by the Bureau of Labor Statistics, we see that the value of coverage varies from a low of about $1,000 to a high of $6,000 (with a few exceptions below or above this range).[41] Unfortunately a number of these insurance benefits are reduced substantially at age 65. For example, insurance in the auto industry (during 1966) is reduced 2 percent monthly until it equals 1½ percent of the amount in effect immediately prior to initial reduction multiplied by the years of coverage up to 20 years. Or, among many tobacco workers, the life insurance benefit is reduced 10 percent at age 65 and reduced by a like amount on each of the next four succeeding birthdays.

One cannot help but feel, after surveying current practices, that existing death and life insurance benefits are designed not so much to reflect the needs of the employees and their survivors but to insure that benefits remain within the severe cost constraints of the employer.

D. Vesting

The social consequences of private pensions—the impact on society as a whole of differing individual choices made by a great number of private individuals—is especially apparent when we consider vesting.

Vesting refers to the provision in pension plans that guarantees those covered by the plan that they will receive all or part of the pension benefit for which they have qualified, whether or not they are working under the plan at the time of their retirement. Through vesting, the pension rights of otherwise qualified workers are protected whether they were discharged, furloughed, or quit voluntarily.

Typically, plan provisions set as qualifications for vesting, minimum age and/or minimum length of service requirements. A plan may thus require that a worker have 10 or 15 years of service and be over age 40 before he acquires any vested right to a pension benefit. Although there is great diversity among the vesting provisions of private plans, two major types may be identified.

If a plan provides that an eligible worker retains full right to his accrued benefits once he meets the specified requirements—after age 40 and 10 years of service, let us say—then the plan is said to offer

[41] See U.S. Bureau of Labor Statistics, *Digest of 100 Selected Health and Insurance Plans Under Collective Bargaining, Early 1966*, Bulletin No. 1502 (Washington, D.C.: Government Printing Office, 1966).

deferred full vesting. If a plan provides that a worker gains rights to a certain percentage of his pension benefits upon meeting the minimum age and/or service requirements, and that his percentage of entitlement rises through the ensuing years of employment to an eventual 100 percent, the plan is said to offer deferred graded vesting. About 70 percent of those covered by plans with vesting have deferred full vesting.[42] Nearly all the others covered by plans with vesting have deferred graded vesting; immediate full vesting is extremely rare.

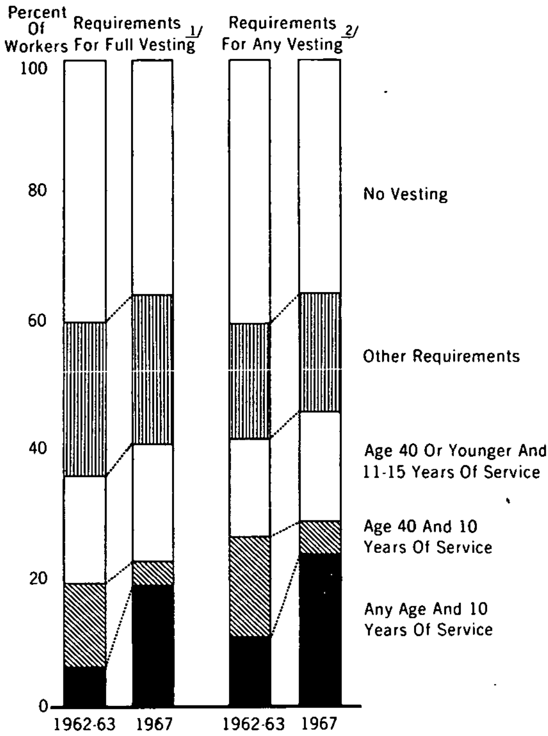
As we have seen above, by no means are all workers in the private sector covered by private pension plans. Of those under such plans, not all will attain vested rights. The fraction of workers in plans with vesting now stands at about two-thirds. Vesting is no more prevalent in collectively bargained plans than in those installed by employers on their own initiative.

Retirement in good health before the customary age—early retirement—has been mentioned as an alternative to vesting. About one worker in five is covered by a plan that lacks vesting but does permit early retirement. A worker may prefer to leave his current employer and work elsewhere, perhaps at a lower wage, or he may wish to trade a smaller annual pension benefit for a longer period of retirement. Early retirement is found in pension plans covering three-fourths of the workers under private pension plans. Furthermore, the employer must assent to the worker's choice of early retirement in the case of plans covering about two-fifths of the workers. Typically, early retirement provisions call for attainment of age 55 or 60 with 5, 10, or 15 years of service with the employer or permit early retirement at any age after 20 years or more.

Chart 1 shows the results of two surveys of vesting provisions. It shows that in recent years there has been very little increase in vesting coverage and little liberalization of vesting provisions. The one major change has been that a significant number of workers covered by plans with age 40 and 10 years of service vesting requirements are now able to get some vesting after 10 years, regardless of age.

[42] Donald M. Landay and Harry E. Davis, "Growth and Vesting Changes in Private Pension Plans," *Monthly Labor Review* (May 1968), pp. 29–35.

Chart 1. Age and Service Requirements for Vesting, 1962–63 and 1967



1 Plans with graded vesting provisions classified by their age and service requirements for full vesting.
2 Plans with graded vesting provisions classified by their age and service requirements for initial vesting.

Source: U.S. Department of Labor.

Of what value are vesting or early retirement provisions to those who are potentially eligible under them? In January 1965, the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs attempted to answer this question. A newly hired 25-year-old employee was assumed to have entered a private plan with vesting and early retirement provisions. The Committee then calculated that:

> * * * 90 percent of the plans were found not to provide any protection to the worker within the first 10 years of his service or until age 35. If he remains until age 40, with 15 years of credited service, he still would not be qualified for vested benefits in over two-thirds of the plans. By age 50, with 25 years of service, 45 percent of the plans would have requirements which this hypothetical worker could not meet * * * [43]

As a result of the liberalization in recent years of age and service requirements (discussed above), the estimates of the President's Committee have been updated by the Bureau of Labor Statistics. Based on data for 1967, the probability of all workers acquiring vested rights (if they begin working at age 25 in jobs covered by pension plans) was about 22 out of 100 after 10 years of service.

Further evidence on this question was given in testimony by Henry T. Ivers, chairman of the board of trustees of the Western Conference of Teamsters Pension Trust, to the Joint Economic Committee in 1966. The relevant section of the hearings is reproduced below.[44]

> Senator JAVITS. Now actuarially what percentage of your membership on the average did you figure would qualify for a pension?
>
> Mr. IVERS. I cannot answer that question because I am not an actuary, but we have assumed that under the operation that we now have that something in excess of 50,000 will qualify for pensions.
>
> Senator JAVITS. So that one-sixth of the total membership will qualify; is that right?
>
> Mr. IVERS. Yes.
>
> Senator JAVITS. You said about 300,000.
>
> Mr. IVERS. 350,000.
>
> Senator JAVITS. And you figure one-sixth will qualify?
>
> Mr. IVERS. A little better than that.
>
> Senator JAVITS. All right. Now, pursuing Mrs. Griffiths' question, has your experience to date borne out that estimate?
>
> Mr. IVERS. We are not old enough.
>
> Senator JAVITS. You are not old enough to tell?
>
> Mr. IVERS. No.
>
> Senator JAVITS. But your estimate is that one-sixth of the total for whom there are contributions will get benefits. Will that one-sixth get the contributions which were paid in for the

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[43] The Committee, "Public Policy and Private Pension Programs, a Report to the President on Private Employee Retirement Plans," (Washington, D.C.: Government Printing Office, 1965), p. 39. Data for 1967 are from Landay and Davis, *op. cit.*, p. 34.

[44] U.S. Joint Economic Committee, Subcommittee on Fiscal Policy, hearings on "Private Pension Plans," pt. 1, 89th Cong., second sess. (Washington, D.C.: Government Printing Office, 1966), p. 38.

other five-sixths as well as the contributions paid in for them?

Mr. IVERS. That is the only way the plan could be supported. Your death and attrition rates are what support the plan. You could not pay the benefits that we pay if a hundred percent of the people were going to qualify for it because there just is not enough money. You would certainly have to get a much, much higher contribution rate.

It is evidence similar to this which caused Thomas R. Donahue, as Assistant Secretary of Labor for Labor-Management Services, to remark in testimony, "In all too many cases the pension promise shrinks to this: 'If you remain in good health and stay with the same company until you are 65 years old, and if the company is still in business, and if your department has not been abolished, and if you haven't been laid off for too long a period, and if there is enough money in the fund, and if that money has been prudently managed, you will get a pension.'" [45]

The older worker who loses his job, for one reason or another, after many years of service but before qualifying for a private pension benefit has suffered a retroactive pay cut. The older worker who must forfeit his pension benefit if he chooses to change employers is uncomfortably close to serfdom. Neither situation is hypothetical. Both occur all too frequently and, as public opinion is coming to acknowledge, older workers caught in both situations are victimized by flagrant inequity.

Although public policy demands equity in the matter of vesting, public policy, as formulated in the relevant provisions of the Internal Revenue Code, does not grant equity. Private pension plans may qualify for preferential tax treatment without regard to their vesting provisions, or lack of them, save only that any vesting that is proffered must be equally available to all employees, whatever their wage rate or salary. Favorable treatment under the Federal tax law is vital to private pension plans. Therefore, in order to foster and liberalize vesting, many have urged mandatory minimum vesting requirements, arguing that voluntary improvement of private plans is too slow in coming.

During the decade of the 1950's there was a pronounced trend toward more liberal vesting provisions. As shown above, however, during the 1960's this trend has slackened. As Assistant Secretary Donahue testified before the Committee on Labor and Public Welfare "at this rate we will have to wait until about the year 2000 before substantially all plans have even a modest vesting provision." [46]

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[45] U.S. Committee on Labor and Public Welfare, Subcommittee on Labor, hearings on "Pension and Welfare Plans," 90th Cong., second sess. (Washington, D.C.: Government Printing Office, 1968), p. 217.

[46] U.S. Committee on Labor and Public Welfare, *op. cit.*, p. 220.

Estimates indicate that some approaches to mandatory minimum vesting requirements would not be expensive. The President's Committee, for example, estimated that deferred full vesting after 20 years of service would seldom add more than 6 percent to the cost of providing normal retirement benefits at age 65. Deferred graded vesting, with at least half the accrued normal retirement benefit vested after 15 years of service and full benefits after 20 years, would seldom add more than 8 percent to plan costs. S. 3421, which was considered by the 90th Congress, would have required full vesting of regular retirement benefits after 10 years of service, excluding years of service prior to age 25. The Department of Labor estimated in 1968 that this requirement, which would immediately cover some 10 million workers, would cost one-third of the private pension plans nothing or at most an additional 3 percent. About one-fourth of the plans would be faced with cost increases of between 3 and 6 percent. Less than half the plans, most of which lack any vesting provisions, would incur costs greater than 6 percent.[47]

It has long been contended that many workers change jobs unaware that they have gained vested rights to a pension benefit. When they qualify for its payment by reason of age, perhaps many years later, they may fail to apply for their pension benefit. This failure to collect their vested benefit may improve the actuarial status of the private pension fund and slightly lower the plan's true costs, but it works a hardship on the retiree and perhaps increases the need for Old-Age Assistance or other similar payments.

A solution which has been proposed (as far back as the 1961 White House Conference on Aging) would be to require private plans to report acquisition of vested benefits to the Social Security Administration when, for example, wage payments and tax collections are reported. The fact of vesting could then be noted on the individual wage records maintained by the Social Security Administration and then reported to the worker when he applies for his public retirement benefit. This procedure would, of course, amount to the designation of the Social Security Administration as a clearinghouse for information about eligibility for private pensions and would thus be a step toward full portability of pensions.

E. Communication and Disclosure

A great deal of discussion has taken place regarding employee expectations under the private pension system. However, there is little factual evidence about how much employees really know about and expect from their plan. Certainly, as formal communication regarding pension plans has spread and become more sophisticated, individual workers' awareness of the plans and the provisions has increased and their decisions have been and will be affected more strongly. But it cannot be assumed that participants in a pension plan have complete knowledge of their probability of receiving, say, a vested pension. One may reasonably ask the question as to whether the terminating worker knows that he is entitled to a vested pension,

[47] U.S. Committee on Labor and Public Welfare, *op. cit.*, pp. 220–221.

and what conditions have to be met to protect this right or to achieve it. Certainly, based on documents and letters submitted by the Labor Department in the recent hearings on private pension plans, one would be led to believe that there are a substantial number of persons who do reach retirement age or terminate employment and have been disappointed to find that they do not qualify for a pension they anticipated, or there are no funds available.[48]

Most of this evidence and reasoning strongly suggests that employers (as well as unions) have not done a sufficient communications job specifically directed at informing employees of the rights and limitations under their plan. This has included misleading or inadequate summaries of pension plan provisions as well as almost complete lack of education and training specifically directed at informing employees of the cost and value of their pension program.

The pension promise for plan members is usually explained in plan booklets that typically illustrate the simple and routine cases. The illustrative benefits section, for example, usually uses the most optimistic projections of both private plan and social security benefit levels to indicate the value of the plan to the employee. Since pension plans and other benefit plans have grown even more complex, the adequacy of such pamphlets in clearly stating the limitations of the pension plan may be understood by the insurers, actuaries, lawyers, consultants, employers, and unions, etc., but it is probably a little hazy for the persons to whom the pension plan actually applies.

At the present time the Government has a number of agencies that presumably could function in this area. First, the Treasury Department requires that members of qualified plans be informed of their rights under the plan. But, apparently there is no avenue open for employees to take action to protect their interest, even if they understood that they had some to protect. Second, through the Welfare and Pension Plans Disclosure Act, the Labor Department requires (among other things) that persons covered by pension (and welfare) plans receive information regarding their plans, including plan provisions. However, in practice the presentation of material to be distributed to the plan participant may take any form within the framework required by the act.

In order to strengthen the communication of employee rights under pension plans, administrators might voluntarily (or be required) to inform plan participants of pertinent factors bearing upon the status of their pension promise. Private pension (and public) plans are now too complicated to be effectively communicated through simple booklets and generalized statements. The plan should be clearly presented so the worker can know how the plan affects him. First, full disclosure of the pertinent material regarding plan provisions and limitations could be required to be made to each plan member. Limitations, especially, should be given a prominent place in the pres-

[48] U.S. Senate Committee on Labor and Public Welfare. Pension and Welfare Plans, hearings before the Subcommittee on Labor, 90th Cong., second sess. (Washington, D.C.: Government Printing Office, 1968).

entation rather than being relegated to the fine print at the end of the booklet. For example, it could be required that the booklet explaining the pension plan given each employee clearly and conspicuously outline the limitations of eligibility for benefits of the plan. Furthermore, a statement of accrued benefits under their plan should be given each employee. For example, it could take the form of an annual statement of accrued benefits with a clear statement of whether these benefits are vested or not.

Furthermore, the terminating (or retiring) employee could be given a statement or certificate of his accrued rights under the plan, with specific information on how to secure these rights. This should include statements about any limitations bearing on these rights.

Many profit-sharing and pension plans already issue such statements to employees.[49] For example, the private pension fund of the Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF) issues a statement regarding retirement pension benefits accumulated. All employees covered by TIAA-CREF receive annually a "report of premiums and benefits" which shows (*a*) the total premiums paid during the previous year, (*b*) the age at which the annuity is scheduled to begin, (*c*) the annuity income *already purchased* (i.e., the benefit which would be received if no further premiums or dividends were credited—under a set of specified assumptions) and (*d*) the value of the death benefit. Appendix A shows these TIAA-CREF report forms, along with the accompanying explanation sent to the covered employees.

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[49] See Bert L. Metzger, "Investment, Practices, Performance, and Management of Profit Sharing Trust Funds" Evanston, Ill.: Profit Sharing Research Foundation, 1969), ch. 19, for examples of forms used to report profit sharing performance to employees.

IV. CONCLUSION: WHAT PRICE FLEXIBILITY?

As was discussed above, private pension plans are instituted for a variety of reasons. A major purpose, of course, is to provide career employees with a retirement income supplemental to the social security benefits provided through the Federal old-age, survivors, disability, and health insurance (OASDHI) program. At the maximum benefit level, OASDHI benefits replace only about one-third of a retired worker's average monthly earnings; with an eligible wife, about half. If a worker is under age 65, his OASDHI benefit is subject to an actuarial reduction. In addition, earnings above the taxable wage maximum of $7,800 per year are currently not creditable for social security benefit purposes. Hence, for workers with above-average earnings, the OASDHI benefit replaces even smaller proportions of total earnings.

Another objective of private pension plans is to meet certain internal personnel and manpower problems. A private pension plan permits employers, in an orderly and humanitarian way, to terminate the services of workers with diminishing capabilities. It helps to reduce labor turnover and its attendant costs. It helps to build morale among employees by rewarding long and faithful service and by giving employees a sense of security. It provides a means for keeping the channels of promotion open, thereby offering incentive and opportunity to younger workers.

Finally, private pension plans are often instituted as the result of external industry or labor pressures. Many large firms cannot afford to be without this form of security for their employees if they are to meet the competition provided by other firms in the recruitment and retention of experienced personnel.

> ***Flexibility or tyranny?*—The mixture of motivation in instituting private pension plans leads to varied views as to their role. When the plans are viewed from the standpoint of their income-maintenance features, their purpose and goals undoubtedly take on a predominantly public hue. When viewed from the standpoint of their role as a management tool in meeting personnel and labor force problems, their public purpose becomes submerged to private interests.**

In view of their significant role as a source of retirement income, there is a great public interest that private plans develop to their fullest potential, that they be provided with incentives to grow, and that they improve their basic soundness and equity. Concern has been expressed that the plans developed to date have not been as effective as they could be because they contain stringent eligibility qualifications, lack portability, do not provide sufficient assurance that the pension expectations of workers will be realized, and may interfere with free job choices. There is also concern that the private pension system falls short of providing universal coverage because many employers have neither the will nor the resources to institute such protection for their employees, especially if engaged in marginal, seasonal, or small-scale operations.

These weaknesses have often led to proposals that standards be established for private pension plans that would assure a minimum level of vesting, funding, benefit payments, and protection in case of plan termination. These proposals, however, are often objected to because they infringe upon the private motivations for instituting and maintaining private pension plans, namely, the desire of management to use a private pension plan as a tool in meeting circumstances and problems peculiar to their own situation.

It is generally recognized that the greater the extent to which the private pension system is subject to standards and regulations, the less the flexibility an individual plan has in meeting conditions peculiar to its firm or industry.

The question often posed then is whether the social purposes of private pension plans are of such significance as to justify the adoption of measures that might limit the use of such plans in achieving certain management objectives. It has been said that as supplemental protection, the private pension system can be most useful in performing those types of functions that a basic national income-maintenance program such as OASDHI cannot do well. A major element in performing these functions is the flexibility with which private firms, employees, and unions can make individual decisions based on individual circumstances and needs.

It is feared that attempts to introduce minimum compulsory standards may unduly burden the maintenance of existing plans or hamper the establishment of new plans. They may introduce pension rigidities, discourage improvements, and result in minimum standards becoming maximum standards. They may interfere with decisions regarding the allocation of resources available for pension benefits. It is pointed out that the terms of private pension plans need to vary not only to meet the needs of particular groups of employees but also to take into consideration "ability to pay" factors fashioned by the economic circumstances of particular companies and industries. The cost of a pension plan can vary widely depending on the age of the company, and the composition of its employees by age, length of service, sex, and other factors. This almost endless variety of circumstances, it is said, argues strongly for a wide measure of freedom in the formulation of new plans and in the evolution of existing plans.

The areas where flexibility is deemed most important concern vesting and eligibility requirements, level of benefits, degree of funding, and retirement policies. What does flexibility mean in these areas and to what degree is there a need for such flexibility? What are the tradeoffs between the need for flexibility and the need for assuring the basic soundness and equitable character of private pension plans? In other words what price is the country paying for this flexibility, and is the price too high?

Vesting and eligibility.—Eligibility requirements for benefits in private pension plans are inevitably geared to meet the special needs and financial conditions of the individual firm or industry. Partly because of an employer's desire to provide an incentive for an employee to stay with the firm, and partly because funding arrangements often make it necessary to equate individual benefits with individual contributions, relatively stringent age and service requirements for qualifying for a pension are in effect in most plans.

The variation in vesting and eligibility provisions is deemed desirable from the standpoint of management because it permits a plan to be molded according to manpower requirements and labor force composition of the individual firm. Management may wish to give higher priority to the payment of adequate pensions to those workers who have demonstrated their loyalty by working a lifetime with the firm than to the protection of short-term employees through vesting. This becomes especially critical when a pension plan has limited income and cannot afford both. If the plan has high turnover, the employer may want to avoid early vesting because it would result in an expensive and unwanted diversion of available funds. He may prefer to use the funds to finance past service credits or provide more rapid funding.

Eligibility requirements can also be varied to meet changing economic conditions. When the need is to accommodate to technological or economic unemployment, early retirement provisions can be invoked or liberalized. If the problem is one of a rapidly aging labor force with diminishing productivity, the pension plan can relax its eligibility provisions.

But what is the price of flexibility in eligibility requirements? In too many cases flexibility means differential treatment between the employee who works for one firm as against the employee who works for several during his career. In the absence of vesting requirements, the latter is likely to end up with no protection or with pieces of protection that are far below what the career employee receives by staying on the job. This discrimination against highly mobile workers is also at odds with the oft-asserted allegiance paid in our society to the desirability of labor mobility as an essential ingredient of a productive and efficient economy. The prospective loss of valuable pension rights through stringent eligibility and vesting requirements tends to keep able and skilled workers tied to a declining industry or firm and inhibits the freedom of long-service workers, particularly among executive, professional, clerical, and skilled groups voluntarily to shift to other companies.

Level of benefits.—The benefits provided by private pension plans range widely, influenced by such factors as level of wages, the method of financing, financial position of the firm or industry and the type of benefit formula used. In the mass-production industries, which have a predominant number of pension plans developed under collective bargaining and covering primarily production workers, there is a tendency to relate benefits to years of credited service only, at least for minimum benefits. Gearing benefits solely to length of employment puts a premium on long-term service and has the effect of providing fairly large benefits for the career employee but small (minimum) benefits for the short-term, transitory employee. Some of the plans provide a uniform (flat) benefit to all who fulfill specified service requirements. Because of limited resources and the fact that all workers are treated alike, regardless of preretirement earnings differences, these plans may end up with a level of benefits that is inadequate for those workers with better-than-average earnings.

Most nonnegotiated plans, on the other hand, relate the benefits to the individual's earnings and length of credited service. A common formula, for example, provides for benefits equal to 1 or 1½ percent of each year's compensation, or of the average compensation in the most recent or highest years, multiplied by the number of years of creditable service. To take cognizance of social security benefits, some plans give greater credit for earnings above the OASDHI wage base than for earnings below that amount.

The use of an earnings factor combined with length of employment maintains, to some degree at least, differentials in retirement income commensurate with differentials in preretirement earnings. Yet, once again a premium is put on long service and under many of these plans, on high-paid jobs.

The choice of benefit formulas and levels is one of the advantages cited for private pension plans, because it permits plans to be tailor-made to specific employer-employee relations. Where there is little differential in wage levels among its employees, it is administratively simpler for a firm to choose a formula based on service alone. Where a firm has a large white-collar force with a broad range in salaries among personnel, a wage-related formula would be more appropriate and satisfying to employees. Where a firm has limited financial resources, it can adopt a modest level of benefits or limit other components of the plan such as those dealing with vesting, eligibility, and disability or survivor benefits. If it is a new plan, it can choose to allocate its resources so as to provide past service credits, thus assuring employees approaching retirement age with adequate benefits.

But what is the price of benefit flexibility? To what extent are benefits adequate? To what extent do wage-related formulas coordinated with social security favor the highly paid wage earner at the expense of the lower paid worker? To what degree is the short-term employee discriminated against and left with a small pension because of benefit formulas that place a premium on long-term service? To what degree are preretirement earnings ignored in determining formula characteristics because of inhibiting economic and financial considerations?

These are the questions of paramount interest to the worker and the public, especially since private pension plans are granted a favorable tax status, presumably because of the significant role they play in the Nation's total retirement security program.

Degree of funding.—Plans have the option of choosing the extent to which they will fund their future commitments. If they wish to receive favorable tax treatment for moneys set aside to meet future liabilities, they must meet certain Internal Revenue Service requirements—funding equal to the current service costs plus the interest charge on unfunded (past service) accrued liabilities. But a plan need not set aside any money for future liabilities; although not commonly done, it can pay benefits as due out of current income and assets.

This flexibility permits plans which have little concern over meeting future commitments—for example, multiemployer plans where the chances of plan termination are minuscule—to devote their current income to providing the largest possible current pensions. Other plans see similar advantages in funding at a minimum level.

The price paid for funding flexibility is the risk that under certain circumstances, the assets needed to satisfy accumulated pension obligations will not be available when needed. The risk is greatest when a plan faces unexpected termination and is not fully funded—that is, has not paid sufficient money into the pension fund to finance retroactively granted pension credits for past services of the employees.

Proposals have been made for minimum funding standards and for plan termination insurance to assure the fulfillment of pension promises, but such proposals in themselves imply a reduction of plan flexibility in terms of timing of a firm's contributions to the trust fund, types of pension fund investments, types of benefits provided and their liberality, etc.

Retirement policies.—Since private plan provisions and their administration are left to the discretion of private employers, unions, and labor-management agreements, private plans can adapt their retirement policies and practices to meet differing situations and conditions. Some industries find it desirable to provide for a flexibly administered retirement system, whereby an employer can take into consideration the differing capacities of individuals of the same chronological age, the current needs of the business, and the general economic situation. Other concerns feel it is good personnel practice to give each employee the broadest option for retirement—early retirement, normal retirement, or continued employment past the normal retirement age. Still others find it more efficient and economical to insist upon mandatory retirement at a designated age. During periods of heavy or chronic unemployment, unions may also favor mandatory retirement provisions as an equitable way to ease the unemployment problems of union membership.

When conditions dictate retrenchment, the firm can adopt early retirement policies which may feature unreduced benefits, or even supplemental pensions, so as to ease the burden on those who are displaced. Vesting provisions may also be liberalized for the benefit of departing younger workers. When a firm is expanding, the emphasis can be on using the pension plan as an instrument for attracting new employees and retaining present ones, perhaps by incorporating new kinds of features such as widow and survivor benefits.

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What is the price of retirement age inflexibility? To what extent are pension plans, when utilized to encourage early retirement and withdrawals from the labor force, working at cross purposes with the national commitment to use to the greatest extent possible the productive capabilities of the older work force? To what extent do pension plans discourage the hiring of employees in the older age brackets because of the pension costs that are associated with employing older workers? To what extent are pension plans administered so as to keep to a minimum the number of qualified pensioners?

How Fast Improvement?

Many people, in response to the above questions, argue that given present trends, private pension plans of the future will be greatly improved and will avoid many of the less desirable provisions currently in effect. The argument is made that private pension plans cannot improve everything at the same time.

While there is an element of truth in such an argument, it is also true that some private pension plans, such as TIAA-CREF, *exist now* which are superior to the vast majority of other plans. Appendix B contains an illustrative group of such plans and descriptions of their provisions.

The superiority of these exemplary plans cannot be attributed simply to normal growth and development over time; conscious commitments lie behind their innovative provisions.

It is not that private industry lacks the technical know-how to improve pension plans now. What is lacking is a sense of urgency to undertake such reforms.

If this lack of enthusiasm for *pension reforms now* were a result of a decisionmaking process based upon adequate information about private and public pension levels relative to retirement needs, then perhaps policymakers would be more willing to heed the words of economist Milton Friedman when he argues, "If a man knowingly prefers to live for today, to use his resources for current employment, deliberately choosing a penurious old age, by what right do we prevent him from doing so?"[50] In actuality, however, the employee is faced with great uncertainty and little knowledge about the ultimate benefits he will receive or what his needs will be in retirement.

Pechman, *et al.*, have succinctly summarized the individual and group saving problem:

> Decisions about saving for retirement, however, are vastly more difficult than nearly any other economic decision which most people are called upon to make. They depend on anticipation of wants in a much later period—possibly four or five decades. They require an individual to consider his future stream of earnings and other income, and to recognize several

[50] *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 188.

possibilities: that he will be married and have a family; that he may be unemployed involuntarily for considerable periods of time; and that he may become disabled or die prematurely. To save intelligently, the individual must also be able to appraise the probable future purchasing power of the income from various assets. Most important of all, the individual may not be aware of his mistakes until he is close to retirement, when the consequences are irremediable.[51]

Moreover, as Galbraith has emphasized in his book *The Affluent Society*, billions of dollars are being expended to convince people to buy "now" more of various goods and services in the private sector, while no similar effort takes place to extol the virtues of public goods. This creates an appalling lack of "social balance" in the American economy, and it is not surprising, therefore, that many workers choose higher pay to spend now in preference to a nebulous pension benefit which will be useful during some distant "old-age."

PRICE OF FLEXIBILITY—SUMMARY

In summary, under the private pension system developed to date, each plan is free to give priority to its own needs and to operate independently of other plans. The advantages of such flexibility must be weighed against the submergence of the individual's and the public interest that frequently results.

For example, is it in the employee's and public interest that a large proportion of workers who build up credits under private pension plans never qualify for an eventual pension because of insufficient periods of service with any one company? Is it in the employee's and public interest that the final pensions earned by short-term workers are so much less than those earned by career employees because there are few provisions for transferring and accumulating pension credits from a host of jobs? Is it in the employee's and public interest that private funds be permitted to promise the payment of future benefits without providing sufficient guarantees that the money will be there when needed? In short, to what extent can it be assumed that pension plan provisions geared to meet the special problems of individual firms are also of maximum benefit to the worker, the public, and the economy?

[51] Joseph A. Pechman, Henry J. Aaron, and Michael K. Taussig, *Social Security—Perspectives for Reform* (Washington, D.C.: The Brookings Institution, 1968), p. 61.

APPENDIXES

Appendix A

TIAA-CREF REPORTS TO MEMBERS

(FRONT SIDE)

tiaa **TEACHERS INSURANCE AND ANNUITY ASSOCIATION,** 730 THIRD AVENUE, NEW YORK, NEW YORK 10017

REPORT OF PREMIUMS AND BENEFITS UNDER YOUR TIAA ANNUITY CONTRACT FOR CALENDAR YEAR 1968

1	2	3	4	5
Your Contract No.	The sum of all premiums paid in 1968 was	The age your annuity is now scheduled to begin is *Years* *Months*	The total yearly Single Life Annuity income (starting at age shown) already purchased by December 31, 1968 was	The value of the death benefit on December 31, 1968 was

TIAA annuity contracts do not provide for cash surrender or loans and cannot be assigned.

SPECIMEN

William C. Greenough

CHAIRMAN

F-728-10-68 (A 11,570-)

Please Read Explanation On Reverse Side

TIAA ILLUSTRATION (NOT GUARANTEED)

Item 4 on the TIAA report shows the annuity income *already purchased*, i.e., the amount you would receive from TIAA if no further premiums or dividends were credited to your contract. The *full* amount of your retirement income from TIAA will depend also on future premium amounts, dividends declared by TIAA, your age at retirement, the income option you choose, and other factors. Although it is not possible to predict the effect of each factor on your TIAA annuity, the following illustration may be helpful in planning for your retirement years:

Your TIAA annuity income

would be per year beginning in , at the age shown in item 3 . . .

IF periodic premiums equal to the last one paid in 1968 were continued without change until your annuity income begins . . .

and

IF you begin your annuity income at the age shown in item 3 and elect the Single Life Annuity option (see "Your Choice of Retirement Income" on back of this slip) . . .

and

IF TIAA's current dividend scale neither increases nor decreases.

BACK SIDE

Your Choice of Retirement Income

When you retire, you will choose the annuity income option most suited to your needs at that time. The Single Life Annuity shown in this report and illustration provides a larger monthly income for you than the other options, with all payments ceasing at your death. All other options provide an income to a beneficiary, and therefore provide smaller incomes than the Single Life Annuity.

For example, one popular choice at retirement is the Joint and ⅔ to Survivor option. For a husband and wife who are both age 65 this option pays about 13% less than the Single Life Annuity. At the death of either spouse the lifetime payments to the survivor are reduced to ⅔ the amount that would have continued if both were alive. If *both* annuitants should die within ten years after payments begin, the ⅔ amount continues to their beneficiary for the balance of the ten-year period.

We will be glad to prepare illustrations of this or any other TIAA-CREF option upon request.

EXPLANATION

Item 2—Premiums:

The premiums shown in Item 2 are those paid in 1968. If part of your premiums are paid through salary deduction, please bear in mind that deductions from December salaries are usually applied to pay premiums due January 1. Deductions made in December 1968 for January 1969 premiums will therefore appear in next year's report.

Item 3—Age:

This is the age at which lifetime annuity payments to you are presently scheduled to begin. You can elect to have payments begin at an older or younger age, and your annuity income will be commensurately larger or smaller, respectively.

Item 4—Your Annuity Income:

The figure shown in Item 4 is the total amount of yearly Single Life Annuity income, beginning at the age shown in Item 3, already purchased by the premiums paid and interest credited to your contract since it began. It is 12 times the monthly income you are already guaranteed to receive at the age shown, assuming no further premiums were paid and no further TIAA dividends were declared.

The amount shown is a Single Life Annuity income, which provides the largest income during your lifetime, but provides no payment for a surviving beneficiary. You can elect this option or one of several other options at the time annuity payments begin. The other options provide an income for a surviving beneficiary and therefore an income that is smaller in amount than the Single Life Annuity.

Item 5—Death Benefit:

The figure shown in Item 5 is the total amount that has accumulated in your contract from premiums and interest, including dividends. If you die before annuity payments begin, the full accumulation at that time is paid to the beneficiary you have named, under one of the options available. After annuity payments to you have begun, the death benefit, if any, depends on the annuity income option you select.

Annuity contracts do not provide for cash surrender or loans and cannot be assigned. If premiums are discontinued at any time, you retain to your credit the total amount of annuity already purchased. The right to correct any clerical error in this report is reserved.

(FRONT SIDE)

cref **COLLEGE RETIREMENT EQUITIES FUND,** 730 THIRD AVENUE, NEW YORK, NEW YORK 10017

REPORT OF PREMIUMS AND ACCUMULATION UNITS UNDER YOUR CREF CERTIFICATE FOR CALENDAR YEAR 1968

1	2	3	4	5	6
Your Certificate No.	The sum of all premiums paid in 1968 was	The age your annuity is now scheduled to begin is *Years* *Months*	The total number of your accumulation units on December 31, 1968 was	The value of each accumulation unit on December 31, 1968 was	The value of the death benefit on December 31, 1968 was

CREF certificates do not guarantee a fixed dollar amount of annuity payments. They do not provide for cash surrender or loans and cannot be assigned. All CREF premiums, values and benefits are payable in U.S. currency.

SPECIMEN

William C. Greenough

CHAIRMAN

Please Read Explanation On Reverse Side

CREF ILLUSTRATION (NOT GUARANTEED)

Business activity has its ups and downs – the investor in common stocks must expect them – but in the long run an accumulating share in the growth and earnings of major American industries seems a good way to help provide a suitable retirement income. Your CREF accumulation value will change monthly until you retire, and your CREF annuity income will change once a year during retirement, reflecting primarily changes in the value of CREF's investments. These changes are, of course, unpredictable. However, the following illustration may be helpful in your retirement planning:

Your CREF annuity income

would be   per year beginning in   , at the age shown in item 3 . . .

IF periodic premiums equal to the last one paid in 1968 were continued without change until your annuity income begins . . .

and

IF you begin your annuity income at the age shown in item 3 and elect the Single Life Annuity option (see "Your Choice of Retirement Income" on back of this slip) . . .

and

IF CREF's combined dividend and capital gain rate is 4% each year and CREF's experience as to mortality and expenses coincides with the CREF factors now in use.

(BACK SIDE)

About Your TIAA and CREF Illustrations

The illustrative annuity incomes shown to the right of your TIAA and CREF reports are based on certain assumptions. For a number of reasons, your actual TIAA-CREF income will differ from these illustrations – your premium amount may change; you may retire at a younger or older age than that shown; the dollar amount of your CREF income during retirement will change once a year, reflecting CREF's investment experience; TIAA's dividend scales will change; and so forth. However, we hope these illustrations will be helpful in planning your retirement income, and we invite your inquiries for additional information about your annuities.

EXPLANATION

Item 2—Premiums:
The premiums shown in Item 2 are those paid in 1968. If part of your premiums are paid through salary deduction, please bear in mind that deductions from December salaries are usually applied to pay premiums due January 1. Deductions made in December 1968 for January 1969 premiums will therefore appear in next year's report.

Item 3—Age:
This is the age at which lifetime annuity payments to you are presently scheduled to begin. You can elect to have payments begin at an older or younger age, and your unit-annuity income will be commensurately larger or smaller, respectively.

Item 4—Number of Accumulation Units:
Each premium buys accumulation units, the number bought depending on the value of a unit at the time the premium is credited to the Fund. The number of your accumulation units shown in Item 4 includes not only the units purchased by premiums, but also an additional number of units purchased by your share of the dividend and miscellaneous income earned by the Fund.

Item 5—Accumulation Unit Value:
The dollar value of the CREF accumulation unit changes monthly, and is determined by the market value of all investments in the Fund as of the last day of each month. The figure shown in Item 5 is the value of the CREF accumulation unit on December 31, 1968, the last day of the period reported.

Item 6—Death Benefit:
The figure shown in Item 6 is the December 31, 1968 value of all the accumulation units you own. If you die before starting your CREF annuity income, the then current value of your accumulation units is used to provide an income of a certain number of annuity units each month for your beneficiary, under one of the options available.

At the time your CREF retirement income begins, the then current value of your accumulation units is used to provide you a lifetime income of a certain number of annuity units each month. After this income has begun, the death benefit, if any, depends on the annuity income option you select.

The dollar value of the annuity unit, and therefore the CREF income to you or the beneficiary, changes once a year, reflecting primarily changes in the market value of CREF's investments.

CREF certificates do not provide for cash surrender or loans and cannot be assigned. If premiums are discontinued at any time, accumulation units already purchased continue to participate in the Fund. The right to correct any clerical error in this report is reserved.

Appendix B

SELECTED PLAN DESCRIPTIONS

Below are brief descriptions of a selected number of "highly developed" private pension plans which demonstrate the feasibility of immediately instituting various pension reforms.

1. Teachers Insurance and Annuity Association (and College Retirement Equities Fund)

TIAA was founded in 1918, to provide retirement security for faculty of institutions of higher learning, while allowing maximum mobility between institutions. CREF, the variable annuity portion of the system, was developed in 1952. The TIAA-CREF system now covers 89 percent of the faculty of private colleges and 34 percent of the faculty of public colleges. Faculty, clerical, administrative, and service employees are eligible for participation. Each participating institution determines contribution levels and eligibility requirements for its particular plan.

TIAA-CREF has contained for many years features that are often considered desirable for all private pension plans. These include its vesting and portability provisions, the full funding of liabilities, high benefit levels, a variable annuity feature, and variety of survivor options.

All TIAA-CREF contributions—both employee and employer—become fully vested *immediately*. Each employee owns his individual contract; it has no cash or loan value, and neither can it be forfeited if contributions are discontinued.

Members can transfer employment freely between any of the covered institutions and maintain participation in the plan. If a member becomes employed at an institution that is not covered under TIAA, he can continue contributions on his own if he wishes.

TIAA is a fully funded plan. All present obligations are fully covered; a sum of money is set aside to provide future retirement income earned by present service.

Virtually all TIAA-CREF plans use the money-purchase or "defined contribution" method of fixing contributions, in which a fixed percentage of salary is contributed. This may be a level percentage such as 10 or 15 percent of salary (with the employee's contribution usually being about 5 percent), or a "step-level" pattern, for example 10 percent of salary under $7,800 and 15 percent over $7,800.

The CREF feature was instituted in 1952 as a means of permitting members to invest their pension funds in common stock investments as a hedge against inflation. In institutions with joint TIAA-CREF plans, members may allocate from 25 to 75 percent of their contributions to CREF, the balance going to TIAA annuity purchase. Contributions purchase "accumulation units," which are portions of the CREF investment portfolio. As the value of the portfolio goes up or down, so goes the value of the accumulation units. An accumulation unit worth $10 in 1952, for example, was worth $45.34 at the end of 1968. CREF benefits are then based on a fixed number of "annuity units" payable each month; the value of this unit reflects the continuing performance of the investment fund.

Six months after CREF was established, more than half of TIAA's then 600 cooperating colleges, universities, independent schools, and similar institutions had taken formal action to make it available to their faculty and staff. At present, practically all of the present 1,800 institutions with TIAA have CREF option available. What is particularly interesting to observe is that, given the opportunity to choose, about 94 percent of the employees currently covered by TIAA have decided to also participate in CREF.

The early planners of TIAA were concerned both with the mobility of teaching personnel and with the financial soundness of the plan. Early pension plans in private industry were often designed to assure employee loyalty and to tie employees to the firm. Many universities and colleges, on the other hand, were concerned with the ease of mobility for teaching personnel from one institution to another. They were also anxious to provide retirement security for faculty members so that they could be retired easily when their teaching ability diminished with age. These considerations led to the incorporation of full funding and immediate vesting in TIAA plans.

A related reason for the incorporation of these generally desirable features into TIAA plans was that the *plan members themselves were involved in the early design of the plan.* Many industrial plans, on the other hand, were set up completely from the point of view of the employer; employees weren't generally participants in designing the plans until after the Inland Steel decision in 1948.

2. Armstrong Cork Co., Lancaster, Pa.

The Armstrong plan, covering about 12,000 employees, provides for *full vesting after 5 years of plan membership.* One year of service is the membership requirement, so vesting actually occurs after 6 years of employment.

The plan consists of two portions, a noncontributory employer-financed portion and a contributory portion. Employee contributions are 2 percent of annual earnings under $7,800 and 4 percent of annual earnings over $7,800. Each portion of the plan pays benefits based on one-half of 1 percent of earnings under $7,800 and 1 percent of earnings over $7,800. Currently payable benefits for an employee with 35 years' service and average earnings of $4,800 are $70 per month under each portion of the plan, thus totaling $140 per month.

The plan provides for joint and survivor options, and a lump-sum death benefit equal to the employee's contributions minus benefits received.

3. The Boeing Co.

The Boeing Co. plan, covering 90,000 employees, contains a variable benefit feature somewhat similar to CREF. Benefits (relative to other private plans) are above average, and the plan is funded for past and current liabilities.

Vesting is deferred graded. Membership requirements are 3 years, with no age requirement. After 5 years of membership (8 years of employment) 45 percent of member's credits are vested. This percentage increases 15 percent a year, so that after 9 years of membership, full vesting is provided.

4. UAW-Transportation Corporation Plans

The United Automobi'e, Aerospace, and Agricultural Implement Workers of America (UAW) have basically similar pension agreements with General Motors, Ford, Chrysler, and International Harvester. While vesting provisions are not exceptional (deferred full vesting—10 years of service) the UAW pension agreements have included a number of highly innovative provisions.

Benefits are based on years of service, job classification, and the employee's maximum hourly pay rate. Benefit levels paid, relative to other pension plans, are above average.

The plans provide flexible retirement provisions which permit employees to retire as early as age 60 with a monthly pension of up to $400. Some long-service employees have the option of retiring between ages 55 and 60. There is also provision made to permit an employee to retire between ages 55 and 65 with higher lifetime pensions than for voluntary retirement; this is possible if the employee is disabled or meets certain special criteria.

Under the plans, a widow (of any age) of an active worker who died before retirement but while eligible to retire is automatically eligible for a survivor's pension. This pension is equal to 55 percent of the worker's accrued benefit, adjusted for either early retirement or a joint survivor option. Retired employees are paid benefits which automatically include a survivor's benefit unless they specifically reject the survivor's benefit at the time of retirement (in favor of a higher benefit without survivor's protection).

Appendix C

ADDITIONAL MATERIAL FROM WITNESSES

ITEM 1. MERTON C. BERNSTEIN, PROFESSOR OF LAW, OHIO STATE UNIVERSITY

EXHIBIT A. THE FUTURE OF PRIVATE PENSION PLANS, FROM THE JOURNAL OF RISK AND INSURANCE, VOL. VVVIV, MARCH, 1967

THE FUTURE OF PRIVATE PENSION PLANS

By Merton C. Bernstein

The overwhelming majority of the nation's elderly live in dreadful financial need; Social Security, the mainstay of most, remains inadequate; individual savings are and probably will be little help. Private pension plans could play a major role in raising living standards of this group, but plans, as presently designed, fail and will continue to fail to meet the retirement needs of our rapidly growing elderly population.[1]

This is not to deny that the growth and design of private plans over the last quarter century have been phenomenal. But, despite the constant rejoinder to critics that, if just left alone, retirees would come home wagging their benefits behind them, the improvements have not kept pace with needs. It is suggested that as private plans come under more intense and widespread scrutiny, as they will, dissatisfaction will grow.

The comparative lack of criticism, until the recent past, has lulled the pension industry into the feeling that no great demand for change exists. This overlooks a signal fact of our national life, that much reform legislation comes like a clap of thunder immediately after a flash of public indignation, sometimes from an apparently unclouded sky. Automobile safety legislation is but the most recent example, all the more remarkable because no interest group was pressing for change.

In 1960, organized labor felt the comparatively sudden lash of public-political disfavor. The 1957 McClellan hearings, which uncovered only a handful of proven shenanigans but lots of suspicious situations, led to the 1959 Kennedy-Ives bill passed by the Senate and the far tougher Landrum-Griffin Act of 1960. One could multiply examples.

In every case, the group whose product or conduct was under attack replied that the hanky-panky was slight and that private efforts and the passage of time would heal the sores proven or suspected. But Congress opted not for the passage of time but the passage of laws. When welfare and pension disclosure bills were under consideration it was to little avail that pension industry spokesman chanted "Their ain't no flies on us, there may flies on some of you guys [the welfare plans] but there ain't no flies on us."

Flies or not, tens of thousands of pension plans were sprayed with what was supposed to be DDT, the Reporting and Disclosure Act. Although it turned out to be mostly distilled water, it has been a nuisance, of value primarily as a source of information about plans in general rather than skullduggery in particular. Of course, the deficiencies of private health insurance set the stage for Medicare. Note well that health insurance coverage was far more extensive among the elderly than private pension coverage.

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1 This article does not undertake to provide the data to demonstrate all points of its multi-part thesis; hopefully, the author's book, mentioned above, does that.

INADEQUACIES OF TODAY'S PLANS

Whether or not the pension plans launched in the 1940's and 1950's were adequate, they are not adequate today. Yet the basic structure, for all the important and ingenious improvements, remains essentially the same.

The bulk of employees, roughly 85 per cent of those under plans, must qualify for benefits by long service with one employer. In general, 10 years is the minimum requirement for either a retirement benefit or a vested benefit, and roughly half the employees under vesting provisions must have 15 years of service. Typically, eligibility for disability or early retirement benefits are more exacting. Multi-employer plans require longer service for participating employees and usually provisions for vesting, disability or early retirement are less liberal or totally absent.

Some 25 million employees are said to be under plans, a total which has remained much the same for the last several years. No one with any experience in this field expects a majority of present plan participants to achieve benefit eligibility. Under some assumptions, the rate could be below 25 per cent.[2] The recent Joint Economic Committee hearings add additional examples to the estimates already extant. The low rate of achievement is shared by even extensive multi-employer plans.

Various justifications have been put forward for such a pattern. Pension plans are a reward for long term loyal employees for whom the employer is "responsible." Plans also are supposed to enable employers to replace those who become undesirable employees because of age; therefore, primarily those who reach retirement age while in that one company's employ should qualify. Pensions as a preventive of costly employee turnover must, it is argued, disqualify those who resist their allures.

It is suggested that none of these is a satisfactory justification for the expected low percentages of pension eligibility, especially in the face of large scale involuntary job loss. Even less can these "reasons" justify the preferential tax treatment of qualified plans, estimated to cost the taxpayers about $3 billion in revenue a year.[3] That is a great deal to pay for benefits which will be enjoyed by a decided minority of the employed.

Employees leave jobs for a wide variety of reasons, many of them quite good. Mobility of labor, like that of capital, gives our economic system a rare degree of flexibility and adaptability to change. Whatever the reasons, job changing, at all ages and career stages, is a fact of American economic life. Unless plan design accommodates to it, benefit eligibility will continue to be deficient and comparatively few years of work will result in effective pension savings. Contrary to the common image, job changing is not confined to younger employees. Many of the victims of the forces of change—defense shifts, changing technology, patterns of serving overseas markets; tastes, population profile and distribution—are older employees.

The common belief that one who loses out under one plan when young, will find a safe haven in another pension-covered job when he is ready to settle down to his life-time work, often does not fit the observed facts. Many of the hundreds of thousands who lose, or leave, jobs when they are over forty, never find that job or pension coverage. One reason is that many job

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[2] A very eminent actuary wrote, taking issue with my conclusion that less than 50 percent of participants would qualify. He said, "Well, if you take as typical plans providing for vesting at age fifty with fifteen years of service and were to substitute a five-year vesting provision without any age condition, this would only increase benefit costs twenty percent." So, he concluded, only twenty percent of benefits are being lost because it is not common to have five-year vesting provisions.

I wrote back and said, "I agree with what you say, that your conclusions differ from mine. Mine is a much more conservative estimate. Under your estimate, eighty percent of those under plans would lose benefits, would lose all the credits they have under common current provisions."

The quite obvious reason is that those separted without benefits, with fewer than 15 year's service but more than 5 year's service, would have decidedly shorter service than those who now achieve benefit eligibility, mostly by reaching normal or early retirement age. As average service of retirees would be between 20 and 25 years (or perhaps more) and those with more than 5 but fewer than 15 year's service would average little more than 5 years, the benefit losses of 4 or 5 persons would equal the benefits of one retiree. Indeed, as under many plans the later years typically result in higher benefits, the ratio for losers to winners would be even higher.

[3] Testimony of Assistant Secretary of Treasury Surrey in Hearings on Private Pension Plans by the Subcommittee on Fiscal Policy of the *Joint Economic Committee* 89th Cong., 2d Sess. (May 16, 1966) and *The Future of Private Pensions* (New York: Free Press, 1964) pp. 198-99, which make the point that it is tax free earnings on pension funds that provide the "subsidy."

losses stem from company failures and plant and departmental shutdowns and shifts of both successful and unsuccessful enterprises.

Some additional knowledge has been gleaned about the extent and character of large scale employee separations. A study [4] of mass permanent layoffs (defined as involving more than 100 employees) shows that in a recent two year period (July 1963-June 1965, some 525 establishments separated 187,000 employees. (The study did not attempt to ascertain the extent of non-reporting.) Note that this does not include the more common layoffs of indefinite duration, from which so many employees do not return, either because the employer does not call them back or they have moved and do not get notice of recall or they have become employed elsewhere. More than half (295) of the employing units involved shutdowns which affected employees of all ages; the cliche that turnover is primarily confined to young employees simply does not hold up.

These companies did not go out of business; 117 such units relocated, while other units of the same companies continued to operate. Not unexpectedly, such layoffs were heavily concentrated in manufacturing, especially in defense related industry (the last accounting for almost half the total of employees laid off). While blue collar workers were heavily affected, some white collar and professional workers were caught as well.

Since shutdowns do not necessarily result in plan termination and vesting, large groups of employees can lose substantial amounts of pension credits [5] while the plan experiences higher than expected gains from separations, thereby reducing the employer's future contributions. Of course, the semi-mobilization of the last year has scrambled many eggs anew. Our World War II and Korean experiences warn us that large numbers of workers are lured into new jobs by higher pay.

That is the way our free labor market is supposed to work; mobile workers go where the demand is strongest as measured by compensation. We also know that most such new jobs will be short-lived. Many of them, especially those in defense-related manufacturing, are pension-covered jobs. Indeed, pension coverage is quite concentrated in the work so readily affected by defense production and services (e.g., shipping). Moreover, pressure to avoid inflationary wage increases causes heavier than usual emphasis upon fringes, particularly pensions.

We are going through again what we experienced in the two prior war periods, expansion and, now, improvement of plans (with predictably higher than normal employer contributions). However, large numbers of those now classed as participants will have nothing to show for having been under the plans. The funds will go to employers, in effect, by enabling them to reduce future contributions (or to raise benefits at lower cost) or they may be recaptured, in part at least, by renegotiation. In any event, masses of employees, from whose wages the contributions were subtracted, will not benefit in retirement income.

Such patterns of disrupted employment adversely affect both pension eligibility and benefit amounts, which so frequently vary in accordance with length of service.

PURPORTED IMPROVEMENTS

Many reply to the critical analysis of my book with the assertions that much of my data derives from the 1940's and 1950's, when so many forces of change were loose, particularly two wars. However, "normalcy" is never with us. Today we have another war and the other forces of change move more rapidly than ever.

And, the pooh-poohers go on, "Plans have been young." They say: "You saw the acne and gauntness of adolescence, but note how mature plans are filling out in vesting and survivorship provisions, and benefits are putting on weight. The family is growing at a marvelous rate, before long most jobs that can be covered will be covered by one of these plumper, clear-skinned plans."

Let us take a look at the purported progress.

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[4] Robert F. Smith, "The Impact of Mass Layoff, July 1963–June 1965," *Proceedings of the Annual Meeting, Industrial Relations Research Association* (1965), p. 204.

[5] Alternatively, there is the problem of vesting but insufficient funds, as in Studebaker. Omission of this topic from this paper only testifies to its complexity and importance. Brief treatment will not suffice.

Vesting and Multi-Employer Plans

The standard litany of the business-as-usual pension advocates is that a new-born plan concentrates a large portion of its skimpy resources upon benefits for those who will retire early in the plan. Generally speaking, that is an accurate description and the proper priority. As it matures, a plan is supposed to add vesting, which becomes more and more liberal, i.e., the conditions are easier to satisfy and will lead to a larger percentage of employees actually qualifying.

My book was among the first to point out that vesting provisions are more widespread than had been assumed, if consideration is limited to single employer plans. The problem is not how pervasive vesting is, but what good the formulas in common use will do.

The most liberal formulas in general use require ten years of service, the most liberal general improvement of the last several years has been the elimination of an age requirement, formerly required in addition to the years of service. Both developments have been pioneered by the United Auto Workers.

A lot of ground must be covered before the UAW formula comes into general use. Contrary to the formerly widely held view, an age requirement superimposed upon a length of service condition, can make achievement of vesting significantly more difficult. About half the plans with vesting require 15 years of service and a very large proportion of 10, 15 and higher service conditions are yoked with an age requirement (some so high as to be early retirement provisions).

Perhaps most importantly, the great bulk of those who could qualify for vesting will not, because they will qualify for normal or early retirement instead. An exception is those caught in mass separations; and some of these involve large groups of fairly short service employees, as in the Kaiser Auto shutdown of the early 50's. The great area of need, if vesting is to render real aid, is in vesting for short service of as little as 3 or 2 years. Indeed, the goal should be immediate vesting, or very close to it.

Yet the Cabinet Committee Report offers the worst possible of two worlds. On the one hand, it advocates compulsory vesting for all plans, thereby eliminating their adaptability to varying conditions and raising hackles on a massive scale. Those hackles, however, are raised in vain, because the level of vesting called for, 50 per cent at 15 years, progressing to 100 per cent after 20 years of service, would benefit an infinitesimal minority. Of course, it would "establish the principle" and "open the door." But, starting at such a level, progress toward meaningful vesting would take a very long time. The proposal seems unpromising because it will be difficult to legislate and, if enacted, of marginal value for the foreseeable future.

Some resistance might be eliminated if multi-employer plans were treated separately, with vesting required only if predicted failures to qualify, based upon actual samples, exceeded a specified percentage of employees, and requirements of continuous service were liberalized.

For single employer plans, the Cabinet Committee, or some other significant public or private group, might declare that any plan in existence more than 10 years should ordinarily provide for 10 years vesting, with 5 year vesting after 15 years and even more liberal vesting thereafter.* (The figures are illustrative only; the conditions might well be more liberal.) Non-mandatory bench marks might be more effective than mandatory ones. Once stated, bargaining committees would begin to press for them, just as they started demanding earlier retirement after the UAW "won" that change in 1964 (more about that shortly).

But vesting will not come unless large groups demand it. Some opinion evidence exists that younger workers are becoming more interested in greater assurance of pension eligibility. Unions have been somewhat less than eager in pressing for pension improvements, preferring other more immediate improvements (some quite dubious like "earlier" retirement). Unions, as institutions, understandably have some difficulty in seeing the importance of benefits for those who will be ex-members, in preference to gains for those who remain in the fold. Only if employes, incited perhaps by insurgent union

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* Since this paper was presented, the Federal Inter-Agency Task Force reportedly has undertaken consideration of this suggestion, apparently with a view to mandatory standards.

groups or a more widespread realization of the present unreliability of plans, press their organizations, will union demands for really liberal vesting emerge.

Professor Melone has written a thoughtful analysis of vesting problems.[6] He believes that employers lack motivation to liberalize vesting, in the absence of strong union pressure, because they do not see any advantage to themselves. The argument that Social Security will take over more of the retirement income field if liberal vesting does not proliferate, carries little force with employers, he avers. This, he says is because they do not strongly prefert he private to the public plan and they do not believe that you can affect their relative roles by their private decisions. Many employers, however, do prefer the private to the public system because (1) they get "credit" for the former, subjectively from the employees and in wage-setting and bargaining; (2) many employers can participate advantageously in the private plans; and (3) they enjoy a degree of control over private funds.

Moreover, the Melone arguments overlook the dynamics of pension plan change. Only a few large employers need adopt a provision for it to be launched toward near-universal adoption. Large employers well might see advantages in large scale liberal vesting, for example, offsetting severance pay and bringing new employees to them with vested (and funded) credits, thereby relieving them of the sole burden of providing a fairly decent retirement benefit.

The problem of benefit achievement under multi-employer plans might be separately considered. Arguably, they provide a measure of vesting. But as the Joint Economic Committee hearings show, they do not thereby assure that a high percentage of participants will achieve benefits.

Benchmarks for vesting, separate vesting treatment for multi-employer plans and other alternatives to the Cabinet Committee Report should be studied and proposals made. Once the storm of indignation breaks, it will be too late to concoct new schemes.

Pension Coverage—The Present, The Potential, The Projections

Dan Holland's analysis of the coverage provided by private plans, (almost 50 per cent of the non-agricultural, non-government payroll), echoed in the Cabinet Committee Report, overstates the situation. One reason is because, it compares coverage to jobs, a more static quantity, whereas several million more people move in and out of these jobs each year.

Moreover, he eliminates almost 14,000,000 people as "clearly" not appropriately within the area of potential pension coverage. Most of those excluded are young people and part-time workers. I suggest that he is quite wrong to exclude them. If young people could accumulate pension credits, however small, they would be extremely valuable, producing bnefits at lower contribution cost. Moreover, for those who will be seriously disabled early in working life, such early credits are absolutely crucial to a decent benefit.

As to part-time workers, some are students, to whom the same reasoning applies. Perhaps more importantly, many part-time workers are second wage earners in a family, usually wives, upon whom a family's standard of living so often depends. Indeed, these supplementary earnings provide, for many, the difference between what we regard as the American standard of living and want. If that standard is not to be unduly impaired after retirement, a substitute for those supplementary incomes must also be found. Typically, OASDI wives' benefits exceed those they earn in their own right, hence their former earnings provide no such supplement via Social Security.

It is far from "clear" that part-time workers should be excluded from what is considered the proper area of pension coverage. On the contrary, with the fast and steady growth in work by women in the 40's and 50's, income substitutes for their earnings will become steadily more urgent.

Projections of pension coverage by the Cabinet Committee start with a 1963 base of 23.5 million and predict[7] that private plans will cover about 34

[6] Joseph J. Melone, "Implications of Vested Benefits in Private Pension Plans," *Journal of Risk and Insurance* XXXII (1965), p. 559.

[7] These projections derive from the National Bureau of Economic Research studies under Roger Murray's direction and executed by Dan Holland. As noted later, the N.B.E.R. study made several projections based upon differing assumptions. For some inexplicable reason the Cabinet study produced only one projection, as if coverage were not subject to innumerable unpredictable contingencies. Some of these possible contingencies could be legislation to tighten up on plans or to encourage them, new devices for plan coverage, evolving unemployment patterns, emphasis of defense production or disarmament, etc.

million employees in 1970 and 42.7 million in 1980, excluding annuitants. To this must be added 5.5 million projected annuitants in 1970 and 8.3 million in 1980 (as compared with 2.4 million in 1963). (Of course, a sizable additional group of those presently at work will reach beneficiary status and then die before 1970 and 1980.) The retirees will necessarily come for the most part from those now under plans.

To account for these additional 19 million plan participants and 4 million retirees, plan coverage will have had to add some 23 million, or about double present coverage, by 1980. The average annual net increase of plan coverage would therfore have to be about 1.4 million. Indeed the projections call for larger increases in the next few years and a slower rate of growth later.

Practically all of the additional pension participants will come from the establishment of new plans[8] because employment in the area of heaviest plan coverage today is either static, (as in manufacturing) or declining (as in mining). Moreover, the employment outlook in some areas, e.g. textiles, hardly seems encouraging.

While the numbers of plans approved set new records, the numbers of new plan participants falls short of the projected pace of expansion. In each of 1964 and 1965, I.R.S. newly approved pension plans covered roughly 700,000 new employees, at best. If deferred profit-sharing plans are included, the totals of new participants increases to about one million in 1965. Social Security estimates put the pension coverage advance at 800,000 in 1964.[9]

No employee data are available for the numbers of employees who had been under the plans that terminated (e.g., Studebaker shut down in 1963 and the plan terminated in 1964) or the numbers of employees involved in shutdowns of units under plans that continued in operation. Yet the projection calls for no less than 1.4 million new employees in these years, indeed more, because plotted plan growth was to be heavier in the earlier years of the projection and taper off toward the end.

It is suggested that even the modest projected expansion of coverage from roughly 50 per cent of the non-agricultural, non-government employment to 65 per cent in 1980 may be unduly sanguine. The projections, although most conscientiously done, are based upon assumptions that are necessarily impressionistic, as Professor Holland recognized. Moreover, on some of the alternative assumptions he made in his underlying studies, the projected growth would be very substantially below those used in the Cabinet Committee Report.

Contrary to the Report's prediction, pension coverage may have expanded in recent years less rapidly than the labor force and non-farm private employment have. Coverage may be less extensive now than it as a few years ago, as a percentage of such employment. If, as the Cabinet report and the Holland analysis assume, the rate of expansion of coverage slows down between now and 1980, the proportion of employees covered well may be less by 1980 than today.

Benefits

Controversy over coverage and eligibility has obscured another vital area in which private plans now are weak. The benefits of those who qualify, even when added to typically larger Social Security payments, will not save most retirees from serious reduction in their standard of living. Many will be below the BLS modest-but-adequate 1959 budget level, which I regard as blushingly modest and decidedly inadequate to comfort and independence.[10]

While lower paid workers will achieve a higher percentage of their pre-retirement earnings, even among those fortunate enough to attain benefit status, the overwhelming likelihood is that, under present arrangements, most pension beneficiaries will replace less than half their pre-retirement earnings or be under the B.L.S. budget.

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[8] One study of a significantly large group of plans reports that in 1959 these 93 plans had 5.3 million non-retired participants and in 1964 their coverage had inched up to 5.4 million. Joseph Krislov, "A Study of Pension Funding," *Monthly Labor Review*, Vol. 89 (1966), p. 638, n. 1.

[9] Alfred M. Skolnick, "Ten Years of Employee Benefit Plans," *Social Security Bulletin*, Vol. 29 (April 1966) p. 3 at p. 6, Table 1.

[10] The most comprehensive and up-to-date analysis of benefits probably is Ronald J. Staats, "Normal Benefits Under Private Pension Plans," *Monthly Labor Review*, Vol. 88 (July 1965), p. 856. Unfortunately it suffers seriously from the usual BLS defect of computing sample benefits using only the future service portion of the benefit formula, thereby overstating them, both in absolute and in percentage of improvement terms.

Those who do not escape the latter fate require credited service of more than 25 years and high levels of earnings. Even such length of service will, on the average, produce well under 50 per cent of an individual's former earnings. Of course, the portion of family earnings replaced is even less, since there seldom is a substitute for a working wife's former wages.

It can be concluded that benefits per year of service are low. Just as importantly, many years of work do not count toward benefits, so that the total benefits are just that much more modest. That is why a method must be found to preserve practically all credited pension service and to translate it into benefits.

This is all the more crucial for disability benefits; for the disabled necessarily have fewer years of credited service, if they can qualify at all.

Widows, already skimping along on miniscule OASDI benefits, often are excluded from meaningful pension plan help because joint and survivor options are so infrequently exercised. Their design, often requiring election before retirement, hardly enhances that option; and the low level of benefits discourages the further voluntary reduction in the retiree's benefits required by the election.

Earlier Retirement

In the summer of 1964, retirement before age 65 without actuarial reduction of the normal benefit (what is here called "earlier retirement") looked like the wave of the future. A dubious means of creating job openings, the device assures lower public and private plan benefits.[11] Although many U.A.W. members flocked to earlier retirement, apparently few steelworkers have.[12] The momentum may have gone out of the drive, but more information is required.[13] When employment anxiety returns among pension-covered workers, this expensive device, let us hope, will be hard to revive.

In the case of the U.A.W., employers pay some skilled workers both retirement benefits and regular wages. Surely, there are more pressing demands upon pension funds.

PROJECTION OF FUTURE CONTRIBUTION OF PRIVATE PENSIONS

It is hoped that serious students of this subject will give earnest consideration to a study entitled, "The Future Economic Circumstances of the Aged." [14] Simulation techniques were employed on a computer to project the amounts and distribution of Social Security, private pension and private asset income for the aged in 1980. Dr. Schulz used the Cabinet Report pension projections (critically discussed above) and many other assumptions which I regard as unduly biased in favor of pension eligibility[15] achievement and benefit levels.[16] Even still, his conclusions are not encouraging.[17]

In quite brief summary, the Schulz analysis shows that the present dismal pattern of mass penury among the elderly would be somewhat improved by

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[11] A fairly detailed critique may be found in Bernstein, "The Arguments Against Early Retirement," *Industrial Relations*, Vol. 4 (May 1965) p. 29.

[12] "Retirement Response: Few Steelworkers Take Opportunity to Get Pensions Early," *Wall Street Journal,* July 15, 1964, 6 : 4.

[13] Future B.L.S. surveys should provide the data on plan provisions. We will also need information about experience under them. For example, under the du Pont plan, almost half of those eligible have availed themselves of the liberalized option to retire before age 65, even with actuarial reductions. Speech by Kenneth Meyer before the American Pension Conference, April 20, 1966 (processed).

[14] By Professor James H. Schulz of the University of New Hampshire, to appear in the summer (1966) issue of *Yale Economic Essays*. The article is based on Dr. Schulz's dissertation in economics, "The Future Economic Circumstances of the Aged: A Simulation Project of Aged Pension Income and Asset Distributions—1980." (1966).

[15] For example, he assumed that all individuals reaching retirement age under a plan were eligible for benefits. Probably more serious was the assumption that all job changes by an individual in a multi-employer plan resulted in a move to another job under the same plan. The projections of the Western Conference of Teamsters, described in the recent hearings conducted by the Joint Economic Committee, show such an assumption to be much too optimistic. It seems especially inapplicable to work which is arduous, dangerous or disagreeable. For example, in longshoring a less than total disability can lead out of the industry.

[16] Dr. Schulz used B.L.S. data which, as pointed out earlier, often seriously overstate benefits by using only the future service part of the benefit formula. Building on that erroneous base, he also assumed that benefit levels will follow the past trend of benefit improvements, which is at least debatable.

[17] He also assumes that Social Security benefits will improve by reflecting rising wage levels, assumed to be 4 percent a year as in recent times.

1980, but that private plans would make only a slight contribution to the improvement. The major progress forecast derived from larger asset holdings; this assumption in turn stems largely from the expectation that home ownership will expand and equities increase; and he projects larger financial asset holdings. But both assumptions, as he concedes, are quite debatable, especially that concerning home ownership. In my book it is suggested that the larger percentage of home ownership in 1960 by couples over 75, as compared with the 60-64 age group, might reflect the vestiges of farm home ownership, which is diminishing.

Even with the assumed improvement in holdings and income, the projected financial situation of the elderly, based upon a modest but adequate budget reflecting the changed living standards of 1980, would be only slightly better.

As Schulz points out, using the current Social Security poverty index ($2,460 and $1,745 for a non-farm couple and individual respectively) about half of the retired couples and two-thirds of the single individuals dwelled in 1962 at the poverty level. Of course, many more hovered just above it, some 70 per cent were below the dreary standard of the 1959 B.L.S. Budget ($3,000 for a couple).

Assuming modest increases in output and prices, the 1980 poverty levels would be $3,500 and $2,500 (for couples and single individuals, respectively) and the Retired Couple Budget $4,200. The couples would be in about the same relative condition as in 1962; individuals would be somewhat better off, but primarily because of assumed larger savings, a matter of some doubt.

Income compared with then current general living standards surely is the appropriate test. Progress in real benefits will stem from greater productivity and higher living standards. In 1980, pension performance will be measured in terms of the living standards then, not in terms of our present levels. If the elderly are comparatively little better off than today, the projected progress seems insufficient.

Changes obviously are in order.

A CLEARING HOUSE

The basic defects of private pension plans are that their coverage is not sufficiently extensive to supplement Social Security benefits (the principal gaps are among small employers), only a minority of plan participants will actually achieve benefits, benefits are too low, often because too few years of work result in benefits, and widows' benefits are practically non-existent.

If private plans are to play a major role for more than a minority of workers, they must cover more employees and something close to immediate vesting will have to become common. The vesting need not be full; employers could still make it more advantageous for employees to stay than to leave. And some new broad multi-employer plan is needed to provide coverage for employees in small companies, who are hard to cover, not least because such firms are relatively short-lived.

A national pension clearing house could provide the small group coverage and also pick up the transfer value of the vested benefits exiting employees carry with them, rather than to leave th funds for such benefits in cold storage in the old plan where they seldom participate in plan improvements made possible by an expanding economy. Moreover, such credits could be cumulated for disability benefit purposes, as they now are not.

The clearing house also could act as the mechanism for transfering values between plans which provide for granting and accepting such amounts. It could not only develop a low-cost routine for such transfer, but could develop criteria for the credits to be granted incoming employees. Some now think that the translation of transferred amounts into the new plan presents problems incapable of solution, despite foreign experience and opinion to the contrary.

My book directs attention to the institutional problems of setting up the clearing house and it is believed that among the various suggested alternatives, at least one should be acceptable and workable. Time and space hardly permit a recapitulation of the various possibilities, although it should be emphasized that existing private pension agencies could play a major role in the clearing house if only they would prepare to do so.

It is urged that the technical problems which some see in such an arrangement be tackled within the pension industry. This would be a far better use of time and talent than nit-picking over details of the proposal or futile rear guard exercises to convince Congress and the public that Social Security is basically unsound.[18]

THE OUTLOOK

The next Congress will pay a great deal of attention to retirement income problems. The President has directed the Department of Health, Education and Welfare to submit alternative proposals for the improvemnt of Social Security, with emphasis upon increased cash benefits. That private plans pay benefits to such a small segment of retirees, that few widows draw or will draw benefits, that the projected number of beneficiaries over the next decade and a half will remain proportionately small, will lend weight to the arguments in favor of substantial cash benefit increases under the public program, to be financed in part by general revenues.

My expectation is that the benefits in the final product will be too high for those who see a limited role for Social Security and too low for those who desire to insure a standard of living of decency for the elderly. As a result, there will be renewed pressure for private pensions with more extensive coverage, a larger proportion of assured benefits to plan participants, and more ample benefits.

Meanwhile, the Joint Economic Committee study of private plans will produce a report which promises to be very unflattering to private plans. One significant aspect of the recent Joint Economic Committee hearings may not be fully appreciated by those who have not worked with the Congress. Books, articles, speeches, annual meetings and reports may hash and rehash a topic until it seems tired and familiar to those who know about it. And yet Congress may seem unaware or uninterested.

But members of Congress, who have but little time for books, articles, reports and the like, follow the doing on Capital Hill avidly. When a Committee holds hearings, Congressional attention starts coming into focus. Congress has its own scale of reality and Congressional hearings rank very high with Senators and Representatives. Hence the J.E.C. hearings represent a new and significant stage. This Congressional interest may stimulate White House interest. And, although it may seem strange, it may also stimulate interest group interest.

No effort will be made to try to foretell what the report will recommend. But a reading of the transcript indicates that the Subcommitee Chairman, Representative Griffiths, is not greatly impressed with private plans. Senator Javits of the Committee is on record that minimum plan standards should be legislated. It is probable that the report may embarrass both the Administration and unions, as well as disturb those active in the pension field.

The Johnson Administration has pussy-footed on private pensions. The Cabinet Committee Report has been treated as if it were an orphan. And with reason, or so it has seemed, no solid interest group wants and will fight for the Report's recommendations. And the reason for that is that the institutional interests of some powerful unions are in conflict with the retirement security interests of many of their members.

Some unions want pension plans but do not want to allocate the payroll resources that are necessary to make them pay off in anything like adequate amounts to a high proportion of participants. As a result the key Cabinet Report recommendations for mandatory vesting and funding are opposed by some important unions, which, in turn, leads the A.F.L.-C.I.O. not to press for either the Cabinet Report or other pension reform. Some powerful unions outside the A.F.L.-C.I.O. have deficient plans which they are in no rush to improve, primarily because of the amount of resources required. Hence organized labor, the logical interest group to back such proposals, is missing. The Administration has not been willing to do battle wihout supporting troops.

But one can suggest that organized labor will be embarrassed to be found without an adequate program for pension plan reform, if public concern grows and turns into indignation, as it well might. The debate over Social Security

[18] See e.g., Peterson.

may provide a forum for the denunciation of the inadequacies of private plans. The incidents igniting public concern cannot be foretold but they are in the wind.

When the unions close ranks and set pension program goals that will be widely supported by the public, the Administraton can be expected to push for mandatory vesting and funding and perhaps re-insurance and/or a clearing house. The pussy will turn into a tiger. A few years ago I would have judged such legislation as unlikely to pass; the outlook now is different. Under President Johnson, Congress has learned to legislate on a wholly unprecedented scale and speed.

The resulting statute may not be the one that should be enacted. That is why it is urged that representatives of those with the greatest stakes in private plans, insurance companies, banks, employers and unions, explore and instigate pension reform.

Some such efforts have been made. The Industrial Union Department multi-employer plan surely is one of the most thoughtful attempts to deal with the problems of employment change. Its coverage is extremely modest, 14 companies with 1,100 employees. The very variety and distribution of employees covered, and its present limited size, promise little in the way of continuous coverage for those changing jobs.

Its other major limitations are: it is not set up to give credit for prior work outside the covered companies, and, another aspect of the same thing, large company plans have no relation with it so that their existing employees cannot bring credits to it and those going from the I.U.D. plan into a large company's employ cannot splice their service. Some studies show that when older employees leave manufacturing employment, they go to lower paid jobs, often with small companies, in the service area. Multi-employer plans must bridge broad industry categories if they are to help the mass of job changers.

Moreover, the I.U.D. plan is parallel to the Machinists multi-employer plan, whose coverage also is modest. The N.A.M. plan under consideration will be in the same sector, small companies in manufacturing, many of them not unionized. It would be like expecting the lions and lambs to lie down together for the N.A.M. on one hand and the I.U.D. and Machinists on the other to enter into a reciprocity arrangement. This highlights a limitation of the union-sponsored plans which a more neutral institution could overcome. It is not a practical answer to roughly half the people under non-bargained plans that join unions. The problem of coverage under private plans today has all the shortcomings of the partial coverage of Social Security when it was launched 30 years ago, and without its instrumentality for pooling credits no matter where earned.

Anything less than substantially universal coverage, including jobs usually held by women, and practically immediate vesting,[10] after one or two years, will lead to a public judgment that private pension plans are unreliable, favor a minority of employees, often favor owners and managerial employees, and therefore do not merit the continuation of the decidedly favorable tax treatment they now enjoy. Should that reaction occur, and some of the tax benefits accorded qualified plans be cut back, the main argument for more liberal tax treatment for retirement plans for the self-employed will disappear.

It would appear that private pension institutions are riding for a fall, a fall I would have them avoid because of my conviction that both a public and supplementary private system are indispensable for retirement income adequacy. But if that fall is to be avoided, those primarily responsible for pension design—insurers, banks, employers and unions—will have to develop a broader conception of the role of private plans and recognize responsibility to achieve their potential. The alternative is for private plans to take their place alongside the dodo bird and the dirigible, neither of which could adapt to changing circumstances.

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[10] A practical first step which should muster wide support would be deductibility for employee contributions. Contrary to a widely held view, there seems no valid objection to mandatory employee participation in a contributory pension plan. See *The Future of Private Pensions, op. cit.* at p. 221.

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