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EXTENDING PRIVATE PENSION COVERAGE

A REPORT

BY THE

SUBCOMMITTEE ON EMPLOYMENT AND RETIREMENT INCOMES

TO THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

JUNE 1965

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LETTER OF TRANSMITTAL

U.S. SENATE,
June 3, 1965.

Senator GEORGE A. SMATHERS,
Chairman, Special Committee on Aging,
U.S. Senate.

DEAR MR. CHAIRMAN: I have the honor of transmitting a report resulting from a study and hearings by the Subcommittee on Employment and Retirement Incomes on the subject of "Extending Private Pension Coverage."

Our Nation's private pension system makes a substantial contribution toward the incomes of retired citizens. It is the subcommittee's view, however, that the system holds untapped potentials which should be utilized in providing added retirement income for older Americans. Implementation of the recommendations in this report could result in significant benefit to a segment of our society which has been too long neglected—our senior citizens.

Sincerely,

JENNINGS RANDOLPH,
Chairman, Subcommittee on Employment and Retirement Incomes.

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EXTENDING PRIVATE PENSION COVERAGE

A Report of the Subcommittee on Employment and Retirement Incomes to the Senate Special Committee on Aging

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INTRODUCTION

Private pensions are one of the most important sources of retirement income for our Nation's senior citizens. They are currently paying nearly $2,750,000,000 annually to almost 2,500,000 beneficiaries.[1] They cover about 25 million Americans who have not yet retired, constituting an estimated half of the employees in private nonfarm employment.[2]

While there have been private pension plans in the United States for many years,[3] it is only in recent years that they have blossomed into a major source of retirement incomes. The following statistics of the Institute of Life Insurance indicate the growth of private pension plans in the United States since 1930:

Year	Number of active workers covered	Number receiving benefits	Amount of annual benefits paid	Pension fund assets and reserves
1930	2,700,000	100,000	$90,000,000	$800,000,000
1940	4,000,000	160,000	140,000,000	2,400,000,000
1950	9,800,000	500,000	370,000,000	12,000,000,000
1962	23,040,000	2,100,000	2,160,000,000	60,625,000,000

Looking to the future, the report of the President's Committee estimates that by 1980, the number of employees covered by retirement plans will have increased to 42 million, or three out of five employees then in private nonfarm employment, and that by 1980 6,500,000 Americans will be receiving private pension benefits totaling around $9 billion annually.[4]

Bright as the private pension picture appears from these statistics, there is a darker side which must also be noted.

The 2,500,000 who now receive private pension benefits constitute a small fraction of the 18 million Americans estimated by the Census Bureau to be over 65.

The percentage of the incomes of Americans over 65 which in 1963 came from private pensions was only 3 percent, according to the report of the Social Security Administration on its 1963 survey of the aged.

[1] "Public Policy and Private Pension Programs," report to the President by the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, p. i. Hereafter, this document will be cited as "Public Policy and Private Pension Programs."
[2] Ibid.
[3] The plan established by the American Express Co. in 1875 is generally considered to have been the first major plan established.
[4] "Public Policy and Private Pension Programs," p. vi.

This compares unfavorably with incomes from other sources, as shown by its tabulation which follows:

	Percent
Earnings	32
OASI	30
Interest, dividends, rents	15
Public assistance	5
Veterans benefits	4
Other public benefits	6
Private pensions	3
Other sources	4
Total	[5] 99

While some improvement is forecast by 1980, the 6,500,000 Americans who will be receiving private pension benefits in 1980 will still be a minority of those over 65 at that time. And there will still be 40 percent of the nonfarm work force without private pension coverage at that time, unless improved techniques for extending such coverage are found and put into practice.

The hearings and studies upon which this report was based were conducted for the purpose of discovering and recommending appropriate actions which might be taken to bring more Americans under private pension coverage in the years to come, to the end that full advantage may be taken of the opportunities presented by America's private pension system for enhancing retirement incomes of our Nation's future senior citizens. Four hearing sessions were conducted in Washington, D.C., which are presented in two volumes of hearings, as follows:

Part 1—10 a.m., Thursday, March 4, 1965.
2:15 p.m., Thursday, March 4, 1965.
Part 2—10 a.m., Friday, March 5, 1965.
10 a.m., Wednesday, March 10, 1965.

A wide range of viewpoints and interest groups were represented by the witnesses at these hearings, including the Federal departments and agencies concerned with private pensions and retirement incomes, labor unions and employer organizations, educators, and professional organizations and other self-employed groups.

Based upon the testimony at those hearings and other information reaching the subcommittee's attention, it presents its findings and recommendations outlined in the remainder of this report.

[5] Due to rounding, the total of the percentages is only 99.

Finding No. 1. Action by the Federal Government to extend private pension coverage to more of its citizens and to increase the amount of private pension income received in retirement is unquestionably constitutional and is well within the traditional Federal role in the American scheme of government.

To make adequate provision for the needs of older Americans, the Federal Government has adopted such programs as old-age, survivors, and disability insurance; old-age assistance; and medical assistance for the aged. There is little, if any, dissent throughout the Nation that these are proper activities for the Federal Government under its power and responsibility to "promote the general welfare." Pension plans "promote the general welfare" not only by helping to meet the individual's material needs in old age but also by making the Nation's elderly a positive force in the economy rather than a drag upon it.

The old-age, survivors, and disability insurance program was intended to provide a floor for retirement incomes. It has not provided and probably could not provide adequate retirement incomes without supplementation. The private pension system is one of the most important means of supplementing OASDI, and, as such, helps carry out a Federal responsibility. In a memorandum submitted for the record, the General Counsel of the Treasury discussed the constitutional basis of present Federal tax provisions relating to private pensions, and concluded that these provisions "have a sound constitutional foundation." [6]

[6] Hearings entitled "Extending Private Pension Coverage," before Subcommittee on Employment and Retirement Incomes, Senate Special Committee on Aging, 89th Cong., 1st sess., p. 109. Hereafter, referred to as "hearings."

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Finding No. 2. Private pension plans are advantageous from a number of standpoints as a means of providing adequate retirement incomes.

Pension plans offer advantages over individual savings as a means of providing retirement incomes. Since funds set aside in pension plans are beyond the reach of the individual in his productive years, they do not strain his forbearance and foresight as do his savings which he may withdraw at any time. Furthermore, by combining the retirement funds of many individuals, it is possible to obtain the expert investment and management which an individual cannot obtain on his own. Finally, with the Federal tax advantages currently afforded pension plans, adequate provision for retirement can be made with less cost than if the individual seeks to accomplish this result on his own.

From the standpoint of the Federal Government, this means of providing adequate retirement incomes is advantageous in that the revenue loss incurred for a pension plan must be matched by private enterprise contributions.[7] This is much less expensive to the Federal Government than programs, such as old-age assistance, which are 100-percent Government financed. It is also advantageous from the standpoint of the Federal Government in being a means of providing retirement incomes to its citizens which is not as damaging to their self-esteem as programs such as old-age assistance, which sometimes are regarded as "welfare programs."

From the standpoint of the employer, private pension plans are a voluntary, flexible means of solving the difficult problem of making opportunities for promoting his younger employees and providing financial support for employees forced by old age to retire. Since private pension plans are voluntary, the employer is usually free to adopt one or to refrain from doing so, depending upon the prosperity of his business, his need to attract employees, and other individual circumstances. Furthermore, he has wide latitude of choice and may tailor his plan to fit his business and its needs and those of his employees.

[7] Hearings, p. 96 (Assistant Secretary Moynihan testified for the Labor Department that present tax provisions result in a 30-percent discount in the cost of private pensions, leaving their net private contribution at 70 percent).

Finding No. 3. The "revenue loss" resulting from private pensions, if it is proper to consider it a "revenue loss," is a wise investment in the material well-being of America's elderly and in the prosperity and health of the Nation's economy as it affects Americans of all ages.

Witnesses at the hearings[8] enumerated various factors which decrease or offset the immediate short-range loss to the Government resulting from its statutes encouraging private pension plans:

1. In the absence of pension plans the contributions now made thereto would be paid out in some other form of deductible compensation.
2. Pension accumulations provide capital needed to make jobs and keep the economy healthy and productive, thus producing income which yields Federal income tax revenues.
3. Some of the present decrease in revenue represents deferral of revenue, not loss, as the income will be taxable when received by the beneficiary in retirement.
4. Pensions result in reductions in expenditures of public funds for some purposes such as public assistance.

One witness at the hearings questioned the use of the term "revenue loss" in referring to the decreased revenues resulting from provisions favoring private pensions. Dr. Roger F. Murray, professor of banking and finance at Columbia University, said:

> I lose patience with those who speak of "revenue loss" in regard to public and private pension programs as though they were some kind of loophole. Two centuries ago in England there was a tax on windows. Do we count it a revenue loss that we do not now tax the entrance of sunlight into people's homes? [9]

The subcommittee submits that tax provisions enacted to prevent taxing away the retirement security and financial independence of the American taxpayer in his old age are a wise and proper exercise of the taxing power, and that the resulting net decrease in tax receipts, to the extent that there is one, represents a sound investment, whether or not it be designated a "revenue loss."

It is a sound investment, first, in the material well-being of America's elderly. The report of the President's Committee estimates that the current annual "net revenue loss" attributable to special tax treatment of private retirement plans is between $1,200,000,000 and $3,400,000,000, depending upon the assumptions adopted.[10] Private enterprise adds sufficient contributions from its own funds to accumulate $6,500 million annually in pension funds.[11] The report estimates that by 1980, when today's pension contributions will have begun to bloom into tomorrow's retirement incomes, benefit payments will be about

[8] Hearings, p. 42 (Dean Schottland); p. 47 (Dr. Murray); p. 54 (Dr. Fischer); p. 128 (Mr. Siegfried); p. 139 (Mr. Willis); and p. 149 (Mr. Skinner).
[9] Hearings, p. 44.
[10] "Public Policy and Private Pension Programs," p. 88, table 5.
[11] Ibid., p. 5.

$9 billion annually.[12] Thus, the present annual "revenue loss" of $1,200 to $3,400 million is one of the factors contributing to the provision of several times that amount in retirement incomes in future years.

An example of how each dollar of Federal "revenue loss" contributes to the production of $5.50 to $12.20 of pension income in retirement was provided for the record by Mr. Edwin Shields Hewitt of the firm of pension consultants and actuaries bearing his name.[13]

Incidentally, there is evidence that the contribution made by private pension plans to the material needs of America's elderly is not confined to the income which such plans provide. Dean Charles I. Schottland's statement cited findings of the National Bureau of Economic Research as evidence that private pensions "stimulate the motivation to save," perhaps by bringing retirement security within reach.[14]

Second, it is a sound investment in the prosperity and health of the Nation's economy as it affects Americans of all ages. Social Security Commissioner Robert M. Ball once said: [15]

> To the extent that contributions to pension plans result in a reduction of expenditures that would otherwise be made they increase saving in the aggregate. * * * In the long run * * * it is likely that a higher rate of saving will facilitate the financing of an expansion in productive capacity. An increase in productive capacity will in turn permit a greater increase in production and the future standard of living. * * *
>
> Less tangible, but nonetheless real, are the contributions to production which pensions can make in other ways. Retirement plans can help to keep industrial leadership aggressive by making it easier to retire the unfit among the aged and thus promote young men of promise. In the same way, to the extent that pensions make for a healthier, happier labor force by relieving current workers of a source of worry, they undoubtedly make an indirect contribution to production * * *.
>
> Contrary to popular impression, certain kinds of retirement plans * * * promote risk taking. With basic protection assured, workers and self-employed persons are more, rather than less, likely to take chances, to try out new jobs, to start new enterprises.
>
> It is one of the functions of insurance of any kind to spread a risk and so make it bearable for the individual; he can then afford to take a chance. It is a mistake to assume that insurance and social security arrangements promote caution. They are much more likely to promote enterprise and risk taking—factors greatly needed in our economy. * * *
>
> One factor in the prevention of depression periods or in mitigating their severity is the effectiveness of institutional devices for maintaining consumer demand. * * * Insofar as pensions give a large segment of the consuming public an assured regular income which is independent of the business

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[12] Ibid.
[13] Hearings, p. 86.
[14] Ibid., p. 36.
[15] "Pensions in the United States," a study prepared by the National Planning Association for the Joint Committee on the Economic Report, 1952, pp. 47–48.

> cycle, they have a steadying effect on demand. * * * Pensions then will, at certain phases of the business cycle, add to the total volume of production through maintaining purchasing power and thus employing otherwise idle manpower and capital.
>
> All things considered, it is unlikely that existing pension arrangements have an adverse effect on the total volume of production. It is more likely that the effect is favorable.

A good summary of the advantages of private pensions was given at the hearings by Mr. Jean M. Lindberg, vice president of Chase Manhattan Bank:

> A private pension plan is attractive to an employee because it assures him of greater independence in his retirement years. He is assured of greater freedom of choice as to how he lives and spends his money. Pension plans help employers to maintain an efficient work force with good morale and help to assure an effective market for goods and services among the retired population. Private pension plans advance the Government's objective of a growing, yet stable private enterprise type of economy for the benefit of all citizens.[16]

[16] Hearings, p. 117.

Finding No. 4. The Federal Government is not doing all it can do and should do to encourage and stimulate the extension of private pension coverage.

The hearings revealed a number of sound, effective Federal actions which could be taken to give more Americans the benefit of our private pension system, some of which are embodied in the subcommittee's recommendations in the remainder of this report.

Witnesses at the hearings generally confirmed the conclusion which is often expressed in pension literature to the effect that the least progress in providing private pension coverage has been made in businesses with the fewest employees, most of which are owned and managed by those who are self-employed.[17]

Some witnesses testified that very few plans have been adopted as a result of the Smathers-Keogh Act, the Self-Employed Individuals Tax Retirement Act of 1962 (Public Law 87–792, Oct. 10, 1962). One witness testified that only 15,000 persons have been covered by plans under that act,[18] compared to the 7 million self-employed which the Treasury Department witness estimated could be covered by such plans.[19]

Recommendations 1, 2, 3, and 4 below are offered to provide maximum assistance in extending coverage to employers and employees of small business and professional units.

Recommendation No. 1. The subcommittee recommends that the Internal Revenue Code be amended to eliminate the 50-percent limit on deductibility of contributions to qualified pension plans by self-employed persons for their own benefit in their capacity as employers.

Paragraph (10) of subsection 404(a) of the Internal Revenue Code restricts the deduction which may be taken for amounts contributed by any self-employed individual for his own benefit to 50 percent of such contribution.

Many of the witnesses at our hearings ascribed the disappointing results under the Smathers-Keogh Act to this and other limitations which we recommend to be eliminated.

Statements at the hearings to this effect:

> This act has helped somewhat, but its present shortcomings have limited the utilization of its provisions. The major drawback is that only one-half of the contributions toward the self-employed individual's pension is considered a tax-deductible expense. (Dr. Fischer, p. 57.)
>
> The self-employed individual as an employer of his own services occupies the same position as the manager of a small business employed by a corporation. There is no reason, as a matter of equity, why that portion of his compensation which is committed for the provision of retirement income should not be treated exactly alike in both cases.

[17] Hearings, pp. 26 and 27 (Mr. Bernstein); p. 50 (Mr. Clarke); p. 55 (Dr. Fischer).
[18] Hearings, p. 89 (Mr. Severance).
[19] Ibid., p. 106 (Mr. Stone).

> Removal of the present inequitable treatment would do much to encourage the extension of pension coverage to both the self-employed and their employees.
>
> A bill to accomplish this objective, appropriately identified as H.R. 10, has been introduced in the present session of the 89th Congress by Eugene Keogh, of New York. (Dr. Murray, pp. 45–46.)
>
> It can be proven with little difficulty that H.R. 10 as it now stands is a desirable device for only the high income, high tax bracket proprietor and partner.
>
> It has not been bought—I am speaking of H.R. 10—and will not be bought by the medium- and low-income proprietor and partner in large numbers until certain provisions are eliminated.
>
> I am speaking specifically of the $2,500 limit on contributions, and also the 50-percent limitation on the deductibility of contributions. (Mr. Clarke, p. 51.)
>
> I would be willing to predict that as long as these conditions obtain, coverage under the Keogh-Smathers law will be negligible. (Mr. Severance, p. 89.)
>
> We, therefore, strongly support the passage of the present H.R. 10 which will do much to make possible the extension of pension coverage among the self-employed. (Mr. Skinner, p. 194.)

It was difficult to obtain firm estimates of the "revenue loss" which would result from this and other proposed liberalizations of the Smathers-Keogh Act. There were two estimates in the record. One was that of Dr. Roger F. Murray, Columbia University professor of banking and finance, who expressed the belief that amendments which he advocated involve less than $50 million of revenue in either of the next 2 fiscal years.[20] The other estimate was that of the Treasury Department, which estimated in 1963 that removal of the 50-percent limitation would result in an annual "revenue loss" of $120 million.[21]

As indicated in the excerpts of the hearings quoted above, Hon. Eugene J. Keogh has introduced a bill, H.R. 10, which would accomplish the purposes of this recommendation and of Recommendation No. 2.

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[20] Hearings, p. 48.
[21] Ibid., p. 109.

Recommendation No. 2. The subcommittee recommends that the Internal Revenue Code be amended to provide that a self-employed person who has employees is not bound by the 10 percent or $2,500 limits on pension contributions for his own benefit, but may exceed those limits under a formula which does not discriminate against any of his employees.

Under existing law contributions to a pension plan for a self-employed individual cannot exceed $2,500 or 10 percent of earned income, whichever is less (unless the plan permits nondeductible voluntary contributions). Thus, the $2,500 maximum can be contributed only if the owner-employee has an earned income of $25,000 or more for the year unless nondeductible voluntary contributions are permitted.

There are at least two reasons why it is undesirable to limit contributions for the self-employed taxpayer. First, it seriously impedes the extension of pension coverage under this act. The decision to establish a plan is usually in the sole discretion of the self-employed individual who owns and manages the enterprise. By limiting the tax benefits of the plan in providing his retirement security, the act fails to give full recognition to his own self-interest as a stimulus to plan adoption. Without this stimulus, he may not adopt a pension plan, thus failing to provide his employees with private pension benefits. The second reason why these limitations are undesirable is that by restricting contributions for the owner-employee to such a low level, retirement incomes of all employees covered by the plan are minimized. The generosity of the contributions for all employees may be directly related to the level of deductible contributions for the owner-manager of the enterprise. If the upper limits on his deductible contributions are eliminated or liberalized, the code will still require that contributions be nondiscriminatory. For this reason, the owner-manager, in order to raise contributions for himself, will be forced to raise them for all employees. In this way, the plan will achieve its full potential for providing retirement incomes for all the employees.

The most undesirable limitation is the percentage limitation, under which contributions for the self-employed taxpayer cannot exceed 10 percent of earned income. This limits the contributions of taxpayers with annual net incomes of less than $25,000. We submit that these are the taxpayers who should receive the most encouragement to provide for their old age. They are more likely than taxpayers with higher incomes to reach old age with inadequate savings. Without adequate retirement income, they are more likely to be a drain upon old-age assistance, medical assistance for the aged, and other publicly supported programs. Finally, the revenue loss from their plans will be less, since they are in the lower tax brackets. The 10-percent limitation keeps their contributions so low it is easy for them to reach the conclusion that it is not worth the time, trouble, and administrative expense to adopt pension plans.

This limitation in combination with the arbitrary 30-percent limitation discussed in our recommendation No. 3, has the practical effect of excluding self-employed individuals in many occupations from the benefits of this legislation and thus denying their employees the advantages of private pension coverage.

One approach which might be taken if it is found not feasible to relax the limitations as we recommend would be to repeal the provisions penalizing contributions over those limits. Under subsection (e) of Internal Revenue Code section 401, contributions to pension plans by the self-employed for their own benefit, which are in excess of the $2,500 and 10-percent limits, not only are nondeductible in the year when made; they will cause the plan to lose its qualification so far as an owner-employee is concerned, resulting in the nondeductibility of all future contributions for that owner-employee and the inclusion in his gross income of the earnings of the pension fund attributable to his interest in it. If this penalty is removed, excess contributions could be made without detrimental results other than nondeductibility of the excess. This would take some of the sting out of the present unreasonably low limits by at least permitting the earnings on these excess contributions to be tax free, both to the plan and to the self-employed individual.

Since the subcommittee realizes that it might be too much to hope that all limits on contributions can be eliminated, it recommends that at least the 10-percent or $2,500 limits be eliminated for self-employed persons with employees.

Recommendation No. 3. The subcommittee recommends that the Internal Revenue Code be amended to eliminate or liberalize the provision specifying that where both capital and personal services are material income-producing factors in a trade or business, not more than 30 percent of the self-employed taxpayer's net income from the trade or business may qualify as "earned income" (Internal Revenue Code, sec. 401(c)(2)(B)).

Where this provision is applicable, the self-employed individual's net earnings must be at least $83,333.33 for the year if he is to make the maximum pension contribution of $2,500 (30 percent of $83,333.33 is $25,000; 10 percent of $25,000 is $2,500). One of the largest occupational groups which are severely handicapped by this provision in taking advantage of the Smathers-Keogh Act are farmers. Testimony of the American Farm Bureau Federation showed how unreasonable and inflexible the arbitrary 30-percent provision is with reference to American farms, on many if not most of which the percent of net income attributable to operator labor is considerably over 30 percent.[22] The subcommittee feels that this arbitrary concept should be eliminated or that, at the very least, the inflexible percentage should be raised to a more reasonable figure than 30 percent.

Incidentally, making it possible for more farmers to obtain self-employment pension coverage would assist in solving the Nation's farm problems and in providing better opportunities for younger farmers. In a letter reproduced in the hearings record, Dr. John A. Schnittker, who was then Director of Agricultural Economics of the Department of Agriculture (now Under Secretary of Agriculture), said:

> * * * the fact that many continue to farm past the age of 65 indicates that more attractive plans are needed. Pension plans based on voluntary contributions of farmers have promise. However, they probably could not be made sufficiently attractive to have much impact unless present tax laws were changed. Only small numbers take advantage of the present tax exemptions permitted for pension plans of the self-employed. If attractive to farmers, this type of plan could make a contribution to releasing resources to other farmers because there would likely be greatest participation among those farmers who have relatively high sales and who control much land * * * a program designed to be attractive to older farmers on larger farms would allow an impressive fraction of farm resources to become available to younger operators, including a small number of "new" farm operators.
>
> Your committee might be interested in reviewing the experience of the Netherlands, which relies on programs to induce early retirement of farmers as a major instrument of

[22] Hearings, pp. 145-146. For additional testimony on the importance to farmers of extending private pension coverage, see letter from Dr. Blue Carstenson, National Farmers Union, p. 146.

> achieving needed structural adjustments in the agriculture of the country.[23]

Further along this line, the American Farm Bureau Federation said in its testimony:

> The technological revolution has combined with the initiative and accomplishments of American farmers to bring about the most efficient agriculture in the world. In order to cope with what many consider an overexpanded plant, numerous proposals have been and are being made for land retirement programs. While such programs can be helpful, they require considerable Federal expenditures and deal with only one factor of agricultural production. As fewer and fewer farmers are capable of producing a greater and greater amount of food and fiber, it seems obvious that we must make allowance for human retirement as well as land retirement.[24]

Needless to say, this improvement would also extend pension coverage in other occupational groups in which both capital and personal services are material income-producing factors.

The purposes of this recommendation would be accomplished by enacting either S. 1939 (Talmadge) or H.R. 8023 (Watts).

[23] Hearings, p. 148.
[24] Hearings, p. 143.

Recommendation No. 4. The subcommittee recommends that Congress enact legislation clarifying and reaffirming congressional intent that professional service corporations and associations are "corporations" within the meaning of that term as used in the Internal Revenue Code.

Before the enactment of the Smathers-Keogh Act, private pension coverage could only be obtained for an "employee," and self-employed taxpayers could not obtain the tax advantages of private pension plans. That act contained so many restrictions and limitations that self-employed professionals have shunned it as a means of providing retirement security. However, by incorporating and becoming an employee of his corporation, the professional man could obtain the private pension coverage which has been available for many years to employees, thus avoiding the drawbacks of the 1962 act.

To help their professionals obtain the benefits of private pension coverage available to corporation employees, 33 States have enacted statutes removing the traditional prohibition against practicing medicine, law, and various other professions in corporate or association form.

However, the Treasury Department on February 2, 1965, issued T.D. 6797, regulations which are deemed by many to refuse recognition to many if not most professional service corporations for internal revenue purposes. Because of this current refusal to recognize these entities as "corporations," the professional taxpayers concerned are denied the privilege which is and should be theirs under the Internal Revenue Code to obtain private pension coverage as employees of corporations. This discourages pension coverage not only for these professionsals, whom some might regard as highly compensated—although many are not—but also for their more modestly compensated employees.[25] The American Bar Association [26] and American Medical Association [27] are on record in support of this improvement.

Bills before Congress which would implement this recommendation are S. 177 (Talmadge) and H.R. 697 (Weltner).

[25] Testimony on professional service corporations and associations appears in the hearings on p. 11 (Senator Talmadge); p. 12 (Mr. Crawford); p. 64 (Mr. Dickson); p. 72 (Dr. Blasingame); p. 106 (Mr. Stone); p. 119 (Mr. Lindberg); p. 131 (Mr. Siegfried); and p. 150 (Mr. Skinner).

[26] Hearings, p. 64.

[27] Ibid., p. 72.

Recommendation No. 5. The subcommittee makes no recommendation on the adoption or rejection of the recommendations in the repor of the President's Committee,[28] since most, if not all, those recomment dations are outside the scope of this inquiry. However, it does recommend that each of those recommendations be considered in the ligh- of its possible effect upon extension of private pension coveraget and that recommendations expected to have an adverse effect upon, such extension be implemented only if there is reasonable expectation that the resulting improvements to the Nation's private pension system substantially outweigh their adverse effect upon such extension.

Some witnesses at the hearings contended that adoption of the recommendations in the report of the President's Committee would discourage extension of private pension coverage. Examples of such testimony are the following:

> The pension coverage in this country has grown at a tremendous rate. This growth continues. When anything is as successful as this, it seems prudent to go about changes with great care.
>
> Perhaps the best course for the Congress would be to avoid making any serious legislative changes regarding pension plans, particularly changes which are restrictive. Three proposals along these latter lines have been put forth by the President's Committee on Corporate Pension Plans. (Dr. Fischer, p. 55.)
>
> * * * we believe that most of the recommendations in the report, if adopted, would impede the growth of these plans. (Mr. Severance, p. 88.)
>
> * * * the further governmental restrictions on private pension plans proposed by the President's Cabinet Committee and others would hamper instead of foster the growth and effectiveness of private pension plans. (Mr. Shepard, p. 116.)

On the other hand, Assistant Secretary of Labor Moynihan, speaking for the Department of Labor, said:

> There is just so much vitality and so much interest in the system that it seems to us inconceivable that we can't make the comparatively few basic changes that are proposed while at the same time maintaining the growth of the system * * * many of the proposals of the committee incorporate provisions which have already been adopted by a great majority of the plans, and thus really would affect only a minority. These are good provisions and have been adopted by a majority for that reason; they probably ought to be adopted by the minority for the same reason.[29]

The subcommittee makes no attempt to judge between these points of view. It merely makes the above recommendation as a caveat for those who consider implementation of the recommendations in the report of the President's Committee.

[28] "Public Policy and Private Pension Programs."
[29] Hearings, p. 100.

Recommendation No. 6. The subcommittee recommends that the President direct his Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs to conduct a study on extending private pension coverage and to report on this subject with recommendations for sound, effective Federal actions to bring such coverage to more Americans.

The President's Committee, in filing its report entitled "Public Policy and Private Pension Programs" on January 31, 1965, made a major contribution to this Nation's thinking about its private pension system. It was primarily concerned with making existing pension plans more meaningful and effective in meeting pension expectations; that is, in actually producing benefits needed for tranquillity and happiness in old age. As important as this emphasis is, it does not reach another important area, providing private pension coverage for those who are not now covered and who probably will not be covered without changes in Federal statutes and administrative policies and practices. As a matter of fact, the report, probably for good and sufficient reasons, made no mention of plans for the self-employed and there was no discussion of the Smathers-Keogh Act. The subcommittee considers this phase of private pensions to be of sufficient importance to justify the President's directing his committee to conduct a study and to report on it.

One possibility for increasing pension coverage which might be considered by the President's Committee in connection with such a study is that suggested at the hearings by Vice President Charles A. Siegfried, of the Metropolitan Life Insurance Co., speaking for the life insurance industry:

> * * * in the interests of keeping the administrative costs involved in the operation of private pension plans within a reasonable level, legislation and regulations should be aimed at reducing as far as possible onerous burdens of record-keeping and tax reporting information not clearly essential to the sound operation of the pension plan itself.[30]

Such a group within the executive branch would be best qualified to determine whether the burden of record keeping and reporting can be reduced and to make recommendations in this area.

[30] Hearings, p. 129.

CONCLUSION

The subcommittee recognizes that some of its recommendations will entail "loss" or deferral of revenues. But, as shown earlier in the report, each dollar of such loss or deferral can reasonably be expected to contribute to the production of several dollars of retirement incomes and to the prosperity of Americans of all ages.

America has a long way to go toward adequate incomes for its elderly, and it needs to take maximum advantages of every possibility toward this objective. Our private pension system is a useful tool in producing adequate incomes for the later years, and it behooves us to use it imaginatively and unsparingly.